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Economic policy in the Trump era
Dean Baker [Center for Economic and Policy Research, Washington, DC, USA]

Introduction

The world looks pretty scary with Donald Trump in the White House and Republicans controlling both houses of Congress, so let's start with a positive side to this picture. As long as a Democrat held the presidency, the Republicans in Congress were devout deficit hawks. Now that they are in control, the Republicans are likely to be less devoted to deficit reduction. This certainly was true in both the Reagan and Bush II presidencies. In both cases Republicans were content to see deficits explode. It is reasonable to believe that they will again be happy to sacrifice their commitment to deficit reduction to the greater cause of reducing taxes for the wealthy.

While giving tax cuts to rich people is hardly the best way to boost the economy, and efforts to reduce social spending to make up the shortfall will have to be resisted, the effect of tax cuts will undoubtedly be to boost demand. If the Fed doesn't act aggressively to counter this stimulus, we are likely to see gains in employment with considerable benefits to large segments of the working class.

There was a shift of almost 4.5 percentage points of corporate income from labor to capital as a result of the weak labor market in the 2008-2009 recession. This shift began in the housing bubble years, but that was largely a matter of accounting. Profits on junk loans were booked in the bubble years, the losses showed up in 2008 and 2009 when homeowners stopped making payments. For this reason, there is little reason to believe there would have been a shift against workers without the Great Recession.

The tightening of the labor market in 2015 and 2016 has reversed more than half of this upward redistribution, but reversing the rest will require continued tightening of the labor market. The additional deficit spending associated with Republican tax cuts will likely accomplish this goal.

This is a huge deal. Not only does a tighter labor market mean more people will have jobs, it will disproportionately help the most disadvantaged. The unemployment rate for African Americans is typically twice the unemployment rate for whites. The unemployment rate for Hispanics is generally one and a half times the rate for whites. And for African American teens the ratio is typically six to one.
The wage gains from a tight labor market disproportionately go to those at the bottom end of the wage distribution. The low unemployment years from 1996 to 2001 were the only period since the early 1970s in which workers at the middle and the bottom end of the wage distribution saw consistent wage gains. During these years even hotels and fast food restaurants had to compete for workers. Some McDonalds offered bonuses to workers bringing in friends as new workers and suburban businesses arranged private bus service to bring in workers from the inner city every morning. In short, a tight labor market can do a great deal of good.¹

It is also important to realize that there can be a lasting dividend from getting more people employed now. The employment to population ratio (EPOP) for prime age workers (ages 25-54) is still down by two full percentage points from its pre-recession level and by almost four percentage points from its 2000 peak. The mainstream of the economic profession is prepared to accept this falloff as just a fact of nature. For some reason millions of prime age workers no longer have the skills and/or desire to work. (It is worth noting that virtually no one predicted the falloff in prime age employment either before the 2001 recession or the 2008-2009 recession.)

Given the importance of authority in economic policy debates, as opposed to logic and evidence, it is not possible to win this debate against the mainstream of the profession. However, it is possible for the economy to win the debate with the mainstream of the economics profession. If the EPOP for prime age workers were to rise two percentage points back to its pre-recession level, without a noticeable uptick in the inflation rate, or even better four percentage points back to 2000 levels, then it will be difficult for even mainstream economists to claim it is not possible.

This is exactly what happened in the late 1990s. In the early and mid-1990s it was virtually a matter of absolute faith that the unemployment rate could not fall much below 6.0 percent without triggering an inflationary spiral. Thankfully, then Federal Reserve Board Chair Alan Greenspan was not a mainstream economist. He argued with his colleagues that there was little evidence of inflationary pressure and therefore no reason to raise interest rates and slow the economy. The Fed allowed the unemployment rate to fall below 5.0 percent in 1997 and then reach 4.0 percent as a year-round average in 2000. And there was no noticeable uptick in the rate of inflation.

As a result of this experience, the profession has to discard its 6.0 percent floor on the unemployment rate. The Congressional Budget Office (CBO) and other official forecasters accepted that the unemployment rate could reach levels near 4.0 percent without accelerating inflation. This created a new benchmark for economic policy that allows for far lower unemployment rates than the early 1990s benchmark. We would not have seen this lower benchmark if the Fed has followed the textbook, and the urging of many members of the Open Market Committee, and raised interest rates enough to prevent the drop in the unemployment rate in the second half of the decade.

In this respect, if the demand boost from Trump’s policies is not offset by overly restrictive Federal Reserve Board policies, we will have the opportunity to prove that the EPOP can go

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¹ The impact of low unemployment rates on the labor market is discussed at length in Baker and Bernstein (2013).
higher than the mainstream of the economic profession now accepts. This can give us the facts on the ground we need to win the argument on the maximum obtainable EPOP.

Defense on the Affordable Care Act and other social programs

The Republicans have made clear their desire to go after the countries’ social programs, targeting not only the smaller ones designed to protect the poor, but also Social Security, Medicare, and the Affordable Care Act (ACA). These programs make a huge difference in the lives of tens of millions of people. There is little justification for privatizing or cutting these programs. The United States is an outlier in the lack of generosity of its anti-poverty programs and its protections for middle class workers and retirees. These programs are generally well-run, with administrative costs that are far lower than private sector alternatives, and relatively little fraud.

The fact that so many people are dependent on these programs hugely increases the likelihood that they can be protected. It appears that the ACA is first on the Republicans’ agenda. Twenty million people are currently getting insurance as a result of the ACA. These people and their family members provide an enormous base of opposition to the elimination of the ACA. For these people, the potential loss of insurance is very concrete; this is not some hypothetical that we have to convince them to accept.

It is also important to realize that the people who are getting insurance through the ACA are constantly changing. Five million people lose or leave their jobs every month. Many of these people are losing employer-provided insurance along with their jobs. These people may benefit from being able to get insurance through the exchanges for six months or a year, but then may be back on an employer-provided plan.

The public appreciates the new freedom allowed by the ACA even if most policy types have not yet noticed it. Voluntary part-time employment is up by more than 2.4 million since the ACA took effect in 2014, with especially large rises for young parents and workers just below Medicare age. Involuntary part-time employment has fallen by almost the same amount, leaving little net change in part-time employment.

In short, there are tens of millions of people who understand their stake in protecting the ACA and will likely pressure their members of Congress. There were major protests in support of the ACA even before Donald Trump was inaugurated. If the Republican efforts to repeal the ACA can be derailed, it will make them very shy about going after Social Security and Medicare. It can be expected that they will continue their attacks on anti-poverty programs with the hope of separating out the poor from the middle class, but stopping repeal of the ACA will be a huge victory which can be used to build momentum

Progressive policy in the Trump era: moving to the States

With actions at the national level likely to be largely defensive, the best hope for progressive change is at the state and local level. Fortunately, there are already many efforts already in place which can be built upon.
For example, many state and local governments have already raised their minimum wage well above the $7.25 an hour national rate. In addition, many state and local governments now guarantee workers paid sick days and/or family leave. These efforts can continue to move forward even with Republican control of the federal government. However there are also opportunities at the state and local level to push policies that may more fundamentally challenge the power of the wealthy.

For example, the issue of reducing average work hours or work years can be pressed further with policies like mandating paid vacations and promoting work sharing as an alternative to unemployment benefits. These policies can bring the United States more in line with other wealthy countries, like Germany and the Netherlands, where workers put in twenty percent fewer hours a year on average. Reducing work hours is both a way to improve the quality of life for workers – people should have time to take vacations and be with their families or pursue other interests – and to increase the bargaining power of workers. While the trade-off between reduced work hours and increased employment will never be exactly one to one (i.e. a 10.0 percent reduction in average hours will not lead to a 10.0 percent increase in employment), shorter work years will in general lead to more jobs. Mandating various forms of paid leave, including paid vacation, is entirely within the power of state governments.

Similarly, states have the authority they need to promote work sharing as an alternative to layoffs when companies see reduced demand for labor. As it stands more than half the states, including large states like California and New York, already have work sharing programs as part of their unemployment insurance systems. Work sharing policies can be an effective way to combat unemployment. In the recession, Germany’s downturn was steeper than in the United States, yet its unemployment rate actually fell. The take up on existing state work sharing programs is extremely low because many employers don’t know they exist. Also, many of the programs are overly bureaucratic with rules badly in need of modernization. Another way that states can improve the labor market for its workers is by ending dismissal at will, at least for longer-term employees. Montana already prohibits dismissal without cause for workers who have been on the job for more than six months. This sort of protection makes workers more secure in their employment and can also facilitate union organizing since it would be more difficult to dismiss workers involved in an organizing drive.

States could also require severance pay in order to discourage companies from simply laying off longer term workers and moving operations overseas. For example, if companies had to pay two weeks of severance pay for each year of employment, a worker who had been on the job for twenty years would be entitled to forty weeks of severance pay. This would provide a substantial financial cushion to a longer term worker facing the loss of their job. More importantly it would change the equation for employers. If they knew they would have to pay a substantial price for dismissing workers they would have more incentive to keep them employed. This would encourage them to modernize facilities and upgrade workers’ skills, since this would be preferable to large severance payments for simply getting rid of them.

\[\text{An important caution is that these efforts can go too far. At some point, a high enough minimum wage will create enough job loss that the net effect on the low wage labor market is negative. The additional increment to hourly pay will not offset the reduction in hours worked as result of the pay increase, leaving low wage workers on average worse off. It is important not to press increases in the minimum wage to this level in places where the politics might allow it. Not only will an excessive minimum wage be a bad story for the low wage workers immediately affected, it will also be held up as an example of the folly of pushing for higher minimum wages more generally. That could be a serious setback for efforts to raise wages for low-paid workers.}\]
Severance pay can be set at levels that are too high and discourage hiring and investment, but there is a long way between zero and this point. Germany, which has substantial severance pay requirements, has an unemployment rate of just 4.1 percent. States where progressives have a voice can make steps towards providing more secure unemployment without worrying about massive capital flight.

**Reforming health care**

Progressives have generally focused their efforts on health care reform at the federal level, which is where many of the key policy decisions are made, however there are steps that can be taken at the state level. Health care is an area where the market has been structured to create enormous rents for doctors, drug companies, and insurers. There are ways to undermine these rents for the benefit of the people in a state taking progressive measures.

One route is to take advantage of the lower cost health care available in other countries. While it doesn't make sense to go to Germany, Canada, or Thailand for a check-up or emergency care, there are many expensive surgical procedures that are done on a non-emergency basis, where there can be enormous savings from having them performed outside of the United States. In some cases the cost difference can be an order of magnitude, with high quality facilities in hospitals in India or Thailand performing procedures costing $100,000 to $200,000 in the United States for a tenth of the price. The gap can allow for enormous savings even after paying for the travel of the patient and family members and a stay overseas for a period of recovery.

By facilitating this travel for medical care states can both directly save money for themselves on programs like Medicaid and for their residents on their health care. At the same time, they will be calling attention to the fact that health care costs in the United States are out of line with the rest of the world, not because we get better care, but because we allow providers to gouge the public.

To facilitate this sort of travel states would need to first assure the quality of care in overseas facilities. In Western Europe and other areas with strong regulatory systems, states should be able to accept the foreign countries’ certification. In developing countries, with facilities of uneven quality, it would be necessary to have some independent review process. There are currently international accreditation systems, but their integrity is questionable. In principle it should be possible to support a system that could ensure that patients will be getting high quality care. Developing countries would benefit from having patients from the United States and other wealthy countries, so they should be willing to share in the cost of setting up a strong accreditation system.3

The other way in which states can facilitate medical travel is by setting up a clear system of legal liability so that patients will be compensated for damages from improper care. Patients will not be likely to risk their health in another country unless they can have assurances that

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3 There is an issue that patients from rich countries could be pulling resources away from people in the developing world. This can be offset by a tax on medical travel which is used to train more doctors and medical personal in the developing country. An individual state cannot guarantee that a developing country will tax medical travel and use the proceeds to improve health care, but on the other hand, if a government is not committed to providing health care to its population, the presence of foreigners using its health care system is likely to have little consequence for the ability of its people to get care.
the care is of high quality and that there is legal redress in the event that something goes wrong. Rules for medical malpractice are largely set at the state level so it should be entirely feasible for a state to put in place rules whereby an intermediary arranging medical travel would be legally responsible for any complications that may result from improper care.

The United States pays its doctors more than twice as much on average as doctors in other wealthy countries. This is the result of both protectionist measures internationally and licensing restrictions domestically. On the international side, doctors are prohibited from practicing in the United States unless they complete a U.S. residency program. Obviously there are hundreds of thousands of very competent doctors in Europe and elsewhere who are excluded from practicing medicine by this measure. While this protectionist measure may cost the country as much as $100 billion a year in higher health care costs, it is almost never mentioned by “free traders”, which says an enormous amount about the sincerity of their commitment to free trade.

States cannot overturn this federal regulation, but they can try to work around it. Missouri, Kansas, and Arkansas have all passed laws allowing physicians who have not been accepted to a residency program to practice under the supervision of another physician. Programs like this can be expanded to allow more doctors to practice, putting downward pressure on their pay. States can also be aggressive in expanding the range of practice of nurse practitioners and physicians’ assistants. In addition to reducing the cost of care, this will also provide good paying jobs to workers somewhat below the top 2-3 percent inhabited by doctors.

There should also be as much effort as possible to take the control of health care standards away from people who have a direct financial stake. In the United States two thirds of physicians are specialists, which in other wealthy countries only one-third are specialists. This means that general practitioners perform many diagnoses and procedures in other countries that are typically done by specialists in the United States. There is little evidence that this greater use of specialists typically results in better outcomes. Doctors should not be the ones setting the standards of care. It would be best if these standards are set by other health care professionals without a direct financial stake. This will be increasingly important as technology is likely to facilitate diagnoses by less highly trained (and paid) health care professionals.

There is also an enormous amount to be saved from avoiding patent protected drug prices in the United States. The country currently spends $430 billion on prescription drugs. These drugs would likely cost around $60 billion in a free market. In the case of very expensive drugs, like the hepatitis C drug Sovaldi, the ratio of the protected price to the free market price can easily be more than 100 to 1. (The list price of Sovaldi in the United States is $84,000, while a high quality generic is available in India for less than $200.) While states cannot directly get around patent monopolies they can make it easier for their residents to circumvent them. One way would be to keep a list of reliable suppliers in other countries from which residents could order drugs. For patients on Medicaid or other state health insurance programs, they can even offer to share the savings with the beneficiary. Also in the case of very expensive drugs, which can cost well over $100,000 for a treatment, states can offer to allow beneficiaries to travel to take advantage of lower cost drugs and share in the savings. The point of this policy is both to save money and to drive home how drug companies have

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4 While the legal status of importing drugs is not entirely clear, the government has generally allowed individuals to import drugs for personal use.
taken advantage of government imposed monopolies to get rich at the expense of the rest of society.

**Corporate governance**

Another area that can be addressed at the state level is the corruption of the corporate governance process. As it currently stands the rules of corporate governance allow CEOs and other top management to effectively rip-off shareholders by giving themselves exorbitant salaries. The ostensible check on CEO pay is the corporations’ boards of directors, but these directors almost invariably hold more allegiance to top management than the shareholders they are supposed to represent.  

Contrary to what the many self-proclaimed supporters of free markets would have us believe, the rules of corporate governance are determined by the government, not the free market. Companies are incorporated at the state level, which means that states can change rules of incorporation to structure them to be more favorable to shareholders. As it stands now, the bulk of shares are voted by asset managers like BlackRock. These asset managers almost always support management in their choice of directors as well as other issues put up for a vote by shareholders.

State governments could take away these proxy votes and require that corporations only count votes from shares that are directly cast by shareholders. This would make it far easier for a limited number of investors to organize to get rid of directors that are not doing their jobs. It would also make it easier for shareholders to act directly to hold down CEO pay. One way to further this process would be to attach some consequence to currently non-binding “Say on Pay” votes required by the Dodd-Frank Act.

Under this law, shareholders have the opportunity to vote down the pay package for CEOs at regular intervals. There is no direct consequence of the package being voted down, except as a reprimand to directors for allowing an excessive package. States could alter this, for example, by putting into law that directors lose their pay if a “Say on Pay” package is defeated. While less than 3.0 percent of pay packages currently go down to defeat, this risk is likely to make directors more cautious in awarding high CEO pay. Ideally, this would set in motion a downward spiral in which directors feel the need to make sure that the pay of their CEO does not rank among the highest in the industry, in order to reduce the risk of losing their pay for the year.

Of course many corporations could just opt to re-incorporate in a different state, but this would require CEOs to effectively say that they are scared of letting shareholders have a voice in running the company that they are supposed to own. It would also call attention to the fact that it is not the market that gives CEOs annual salaries in the tens of millions, but rather the corruption of the corporate governance process. Furthermore, there would be relatively little consequence for corporations deciding to re-incorporate elsewhere. The fees for incorporation are a drop in the bucket for most states (Delaware is the major exception).

States could also decide to directly put some downward pressure on the pay of CEOs in the non-profit sector. The explosion of CEO pay in the corporate sector has put upward pressure on the pay of CEOs in universities, non-profit hospitals, and private charities and foundations.

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5 More than 99 percent of directors that stand for re-election win.
The pay of top executives in these areas is directly subsidized by taxpayers through their special tax treatment. Most of the tax subsidy comes from the deductibility of charitable contributions on federal income taxes. For high end earners, this amounts to a 40 percent subsidy. States typically also allow a deduction from state income taxes, as well as special treatment on sales and property taxes.

There is no reason states could not impose a cap on pay as a condition for receiving this subsidy. The president of the United States gets paid $400,000 a year. It seems reasonable to set a comparable cap for pay at institutions benefitting from special tax treatment. This cap would not in any way be limiting what non-profits pay their top executives, it would just limit what they could pay and still receive a subsidy from taxpayers. In addition to putting downward pressure on the pay at the top, caps of this sort would call attention to another way in which taxpayers are subsidizing the salaries of the most highly paid people in the country.

The financial sector

While the federal government must take responsibility for reining in the worst abuses in the financial sector, there are many areas where progress can be made at the state level. First, and most obviously, states have the power to curb many of the worst abuses of the financial industry in dealing with consumers. This includes abuses in the issuance and servicing of loans, excessive fees associated with bank overdrafts and credit card late fees, and fees associated with 401(k)s and other savings vehicles.

This essentially means strong regulatory agencies that are empowered to ban hidden fees and put caps on the size of these charges. In the case of retirement accounts, states can allow workers to buy into accounts that piggy back on the state employee retirement accounts, as Illinois and California have already done. The savings on fees, which can be more than 1.0 percentage point a year, can add tens of thousands of dollars to the retirement savings of middle class workers. Similarly, many state pension funds pay excessive fees to private equity companies and hedge funds. The managers of these funds are among the richest people in the country. States should carefully scrutinize these contracts to ensure that pension funds only pay fees that are commensurate with higher than normal returns. Full public disclosure of fees and returns are an important step in this direction. This will both put a check on inequality and save pension funds money.

Finally, states that don’t have major financial exchanges (i.e. everyone except, New York, New Jersey, and Illinois) can tax some financial transactions; specifically they can impose a tax on the transfer of mortgages issued on property within state boundaries. A modest tax on mortgage transfers (e.g. 0.1 to 0.25 percent) can be a substantial source of revenue as well as disincentive to excessive shuffling of mortgages. Issuers that have a good reason to transfer a mortgage will not be discouraged from doing so from a tax of this size.

The impact on homebuyers will be modest even if it is assumed that the tax is fully passed on in the cost of the mortgage. (A 0.1 percent tax would be equivalent to an increase of 1 basis point or 0.01 percentage point, on a mortgage that is transferred once over a ten-year life.)

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6 Illinois already has a plan in place under which workers without 401(k)s at their workplace will contribute 2.0 percent of their pay to a plan administered by the state, unless they choose not to. California has a similar plan set to go into place in 2020.
Perhaps more importantly, this sort of measure could be a way of familiarizing the public with the idea of financial transactions taxes and driving home the fact that they are not inconsistent with well-functioning financial markets.

In a similar vein, state and local governments can impose a tax on vacant properties. This is another good way to raise revenue by providing a disincentive to speculate on property. This is a tax that should involve relatively low administrative costs, since governments already have recorded an assessed value for most properties, so the vacancy tax would simply involve an additional tax (e.g. 1.0 percent) on property that sit idle for longer than six months or some other period. This gives owners an incentive to either lower rents or to sell their property. This is a tax where even efforts at evasion have the desired effect of making it more costly to leave a property unused.

The City of Vancouver imposed a vacancy tax in the summer of 2016 to curb speculation in its housing bubble. While it is too early to say anything definitive about the impact, house prices have been falling there in recent months.

**Artistic freedom vouchers**

Copyrights are another area in which progressives can look to challenge policies that have fostered the upward redistribution of income over the last four decades. While state and local governments cannot reverse laws on copyright that are written at the federal level, and locked in through various international agreements, they can seek to promote work that is funded outside the copyright monopoly system.

There are a variety of ways they can look to do this. Perhaps the simplest is through the direct commissioning of college textbooks that could be made available on an open source basis, at least to students in the state. The logic here is fairly straightforward. Rather than having tens of thousands of students pay the copyright protected fee for use of a textbook, a state could commission academics in the relevant fields to produce a book for the use of the students in the state. It would be important that the process be controlled by experts in the relevant field to limit the possibility of political influence. Also, there would be no requirement that the texts produced be used by classes at the state’s schools, it would simply be an option where the benefit would be that the textbook would be available at zero cost on-line or for the cost of printing a hard copy.

For a large state like California this would almost certainly provide huge savings. It would likely still save money in smaller states, especially if they acted cooperatively. The availability of open source textbooks would also have the advantage that a professor would be able to freely mix sections from different texts without imposing large costs on students.

States and/or local governments could also look to directly challenge the copyright system by establishing an alternative funding mechanism for creative work. A route that I have suggested elsewhere is an “artistic freedom voucher”.

Under this system, every resident of a state or city would effectively be given a refundable tax credit, like the earned income tax credit.

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7 See Baker, 2016, chapter 5.
credit, of a modest amount to support creative work. The quid pro quo for accepting this money is that the creative worker would be ineligible for copyright protection for a period of time (e.g. 3 years) after the received the funding.

This could support a vast amount of creative work, such as books, music, and movies, all of which would be in the public domain. The problem from the standpoint of a state or city going this route, as opposed to a larger body like the federal government, is the classic free rider problem. A state or city that opted to do this would be financing the creation of material that could be enjoyed by people everywhere in the world at zero cost.

Nonetheless, it is possible that the finances could still work. The availability of the funding would be an enormous draw to creative workers, especially if there was a residency rule, for example that a creative worker had to be physically present for eight or nine months a year to be eligible to get funds through the system. Suppose a mid-sized city with 500,000 people made $100 available to each person for this purpose. If 60 percent were spent, this would come to $30 million. That would likely be sufficient to draw many creative workers to compete for this funding.

In order to improve their reputation among the residents, and to generate income, these workers would likely be performing live music, staging plays, offering writers’ workshops and doing other activities that would command an audience. A city could quite possibly earn back considerably more money in tourist revenue from people attracted by the influx of creative workers than what it paid out in the vouchers. Of course this sort of experiment could be made easier if an innovative foundation were prepared to share in the costs for the first few years.

This is the sort of policy that could help push the country off the path of copyright supported work and instead on a path that promotes openly available material. This is almost a much more efficient route and one that it is likely to promote a much more diverse range of creative work. It is also likely to lead to less inequality since we would probably not see a few mega stars commanding the bulk of the income going to creative workers, along with the many intermediaries who get rich under the current system.

**Conclusion: policy at the state level can create facts on the ground to reorder thinking**

The debate on economic policy in the United States and elsewhere is typically framed as one between conservatives who like the market and progressives who favor a large role for government. This is both wrong and wrong in a way that hugely favors conservatives. Conservatives are entirely happy to have a large role for government in structuring the market; they just don't like big government programs that benefit the poor and middle class. Over the last four decades they have promoted a range of government policies aimed at restructuring the market in ways that redistribute income upward.

Progressive policy should focus on creating alternative structures that reverse the upward redistribution of the last four decades. While the likelihood for much progress in this direction

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8 The city of Seattle recently passed a policy along these lines, providing $100 to every registered voter to support candidates in local elections.
at the national level during the Trump administration seems minimal, there will be opportunities in states where progressives still have substantial political power.

This discussion has outlined a number of areas, such as challenging patent and copyright monopolies, reversing protectionist measures that inflate doctors’ pay, and altering a corrupt corporate governance process that allows CEOs and top management to rip off their companies. In each case the proposals should both directly benefit the people of the state or city adopting them, while undermining the ideology that the market, as opposed to conscious policy choices, has led to the massive upward redistribution of the last four decades.

Reversing this upward redistribution and pushing policies that ensure everyone a decent quality of life is a massive long-term project. The first step is getting a clear idea of where we are trying to go.

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Major miscalculations: globalization, economic pain, social dislocation and the rise of Trump
William Neil [Frostburg, MD, USA]

Introduction

The election of Donald Trump has come as a shock to many around the world, and in the United States as well, especially so for the cautious centrists of the Democratic Party, and surely too for its many free-trading Globalization supporters who happen to be professional economists.

Perhaps we shouldn’t be so surprised. It hasn’t been terribly hard, in retrospect, to fit President Trump into the prevailing political winds in Western Europe over the past decade or so, or longer: the decline of the social democratic left and the rise of the nationalist right, set against a background of economic stagnation and, for the “periphery”, especially Greece, even worse, Great Depression conditions. There is no better way to illustrate the prevailing winds in Europe than to recall that Yanis Varoufakis’, James Galbraith’s and Stuart Holland’s “Modest Proposal” of July, 2013, a wonky “New Deal” essay, containing a bundle of tools to fiscally support that suffering periphery, yet modestly designed to rely entirely upon existing mechanisms and funds, was roundly rejected. It was rejected by the complex and contradictory reality of supposedly “social democratic” Germany, perhaps better expressed as a slowly eroding social democracy for Germans only, with the mindset of German central bankers universalized in the European Union’s troika of key institutions.

And we must not leave out the “cultural” side in Europe, the stark realities of recent horrific acts of Islamic Fundamentalist terrorism in multiple countries, the press of immigrants driven westward by failed states, Western globalizing and meddling in the Middle East, and a combination of all four factors in Africa. This intensification of cultural troubles had been primed for decades before that by the two tier citizenship system designed to manage the cheaper labor imported from various nations to the east. Pity and praise the nautical humanitarians of the West who are pulling the current refugees, and the bodies, out of the Mediterranean Sea. Migrations such as these, free or forced, would pose challenges, cultural and economic, to even healthily growing economies, but that is hardly the context today.

Instead, we have the “Elephant Chart” of economist Branko Milanovic making the rounds of Wall Street investors in the summer of 2016, displaying via an elephant-shaped graph the winners and losers in the new global distribution of income, 1988–2008.

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Western Europeans may have been used to thinking of “cultural reactions” to modernity as a phenomenon limited to the United States (and the Middle East). And indeed, the rise of its Religious Right in the 1970s and its marriage of religious fundamentalism to “market fundamentalism” in the succeeding decades, a union which found a mostly happy home in the Republican Party, was a uniquely American “melding”. The union gave rise to the home base and all that has been meant by our infamous “culture wars”.

This marriage has its contradictions, however, between its fundamentalist, evangelical religious base and its free market business community. It requires a grand intellectual fog to obscure the fact that the “manic” pace of technological change, the heart of capitalism’s Creative Destruction, will also disrupt the moral universe behind the existing social structure, perhaps no better illustrated than the gap between a New York real estate mogul’s lifestyle and the conservative Christians who endorsed him in exchange for key “cultural” policy pledges. The late Sheldon Wolin (1922-2015) wrote of these contradictions in 1980, evaluating the Reagan coalition:

“The destruction of traditional values is also the condition for the innovating economy to operate freely. The modernizing economy is voracious, not only of natural resources, but of the traditional human resources summed in traditions: resources of skill, craftsmanship, domesticity, personal ties, and common morality.”

Yet much of the same American ground of cultural reaction can be found, with proper continental adjustments, in the work of French author Michel Houellebecq, beginning with his 1998 novel The Elementary Particles, and called to the attention of American readers in April, 2015 via a review of his new novel, Soumission, which had been sweeping France up in a grand national identity controversy, about the book’s plot: the election of a Muslim French President. In the New York Review of Books Mark Lilla has a complex take on what it means; ours is that out of “late” Western civilization’s “decadence” and fragmentation comes a yearning for moral order and discipline from a powerful leader.

That’s not so different than the conclusion of David Harvey’s brilliant 1990 summary of the vast Western cultural confusions towards the end of his book The Condition of Postmodernity: An Enquiry into the Origins of Cultural Change. Harvey is one of the most gifted writers about late modern capitalism, and Globalization, winning praise even from the Financial Times for his 2010 book The Enigma of Capital. Harvey’s traditional yet sophisticated Marxism had been strained by the babble of controversies emerging in the art world and college English departments, substitutes for real world debates inside the declining left. Here he comments on the bafflement visited on Western intellects by the “deconstructionists”; the note, “Trump, 2015”, at the bottom of the page must have been written in the late fall of that year:

“…deconstructionism ended up, in spite of the best intentions of its more radical practitioners, by reducing knowledge and meaning to a rubble of signifiers. It thereby produced a condition of nihilism that prepared the ground for the re-emergence of a charismatic politics and even more simplistic propositions than those which were deconstructed.”

Harvey has understood what too few conventional economists and globalizers have not: that technological change, the “Creative Destruction” at the heart of the process of capitalism’s Globalization, largely American driven, is a very Janus-faced force: unifying through its vast
new nation- spanning supply chains, yet threatening cultural chaos and fragmentation by its micro-specialization, and destroying any sense of predictable careers and employment stability, as Richard Sennett so eloquently reminded us in his 1998 book *The Corrosion of Character: The Personal Consequences of Work in the New Capitalism*. His closing sentence was a haunting warning of pending troubles in Neoliberalism: “But I do know a regime which provides human beings no deep reasons to care about one another cannot long preserve its legitimacy.”

Almost 20 years later, the cracks in that system are growing wider.

Both Harvey and Sennett were preceded by historian Carl Schorske’s 1980 book, *Fin-Der- Siecle Vienna: Politics and Culture*, which Harvey cites early in *The Condition*, quoting Schorske as to Vienna’s “ruthless centrifuge of change” and noting that “not only the producers of culture, but also its analysts and critics fell victim to the fragmentation”.

What Harvey did not cite, however, was a later chapter in Schorske’s prescient, depressing book, Chapter Three, “Politics in a New Key: An Austrian Trio”. Schorske is talking about the rise of a new “visceral” politics in the persons of Georg Von Schonerer, Karl Lueger and yes, even Theodor Herzl. The worst of these, the eventual anti-Semitic Mayor of Vienna, was Karl Lueger, but all had been rising inside the growing nationalisms bubbling up in the twilight years of the Austro-Hungarian Empire, 1890-1914.

Schorske sees something else, in “each of these political artists…” – that they “grasped a social-psychological reality which the liberals could not see. Each expressed in politics a rebellion against reason and law which soon became more widespread.” And in Karl Lueger’s climb, and his vicious rhetoric, Schorske foretells something more, a “dress rehearsal” for what would follow in Germany, 1919-1933. To be more precise, and useful for contemporary problems, what the cautious, rational, incremental (economically laissez-faire believers, classical liberals in Polanyi’s sense, ancestors of today’s Neoliberals) liberals could not grasp was that social strains and the rise of mass politics had opened up a new, emotionally charged pathway of communication between political leaders and citizens. It leaves us still with the unanswered, haunting question for the left: why is the political right able to exploit this pathway, but not the left, the National Socialists in Germany in the 1930s, but not the older SPD, the Social Democratic Party of Germany?

Before Bernie Sanders, perhaps the last time the left in America was infused with emotion, as well as the participation of a good part of rural Protestantism, was in the 1896 campaign of William Jennings Bryan.

If there is any common denominator to the commentary in America, before and after the election, it is the worry that our politics may never be the same again. More specifically, the recognition was that Trump had driven through so many conventional barriers against personal invective, the overt demonizing of multiple “others” – feminists, Hispanic immigrants, blacks, the handicapped, the press itself, now the courts, indeed, most of what has been building during decades of the Culture Wars between the Left and the Right – that it left half of the nation or more wondering whether political decency, and civility, could be restored.

President Trump cannot be understood along any one plane of analysis. There is much going on in the world and inside the United States which prevents easy unitary explanation. That is why both the cultural and the economic dynamics, and their interactions, are important.
Trump’s campaign displayed both directions about equally, with his emphasis on white, blue collar de-industrialized workers in the old rustbelt cities of the upper Mid-West seeming to have given him the edge in the Electoral College. (Wesley Yang’s piece in Harper’s magazine, “American Nightmare,” and Mike Davis’ in Jacobin, “The Great God Trump and the White Working Class” are particularly insightful.)

Yet that already shockingly divided Electoral College map tells us something few have mentioned: it was exactly the map, and results, which George Wallace was seeking in 1968, and 1972, but could not achieve. It was sought by others too, pushing towards the eventual Republican Right achievement under Ronald Reagan, expressed by advisor Richard Wirthlin in a 1980 campaign memo:

“…the goal was to break up the coalition that had supported the Democratic Party throughout the post-war years by winning the votes of ‘Southern white protestants, blue collar workers in the industrial states, urban ethnics, and rural voters’.”

We have held, for a number of years now, two competing narratives about the course of American political economy over the years. One is focused on the decade of the 1850s which led to the American Civil War, when the visions for the country could not be reconciled even by the American genius for legislative compromise; the other narrative is more international in focus, the unhappy ending to what is viewed as the first great age of Globalization, the long 19th century, which Karl Polanyi tells us did not end finally until the collapse of fascism in 1945. That first narrative, leading to the American Civil war, has its themes, unfortunately, appearing in a still running act, which can be summarized, at some risk, under the contemporary heading of the “Southernization of American Politics”.

The second narrative is captured in Karl Polanyi’s The Great Transformation: The Political and Economic Origins of Our Time (1944). In seeking to understand the rise of fascism in the 1930s, Polanyi tells us to look back to the classical economists whose work paved the way for the Industrial Revolution in Britain, and the near religious intensity with which their free markets were urged upon first Britain, and then the whole world during that long 19th century.

Behind both narratives, the defeat of the slavery south in 1865, and the collapse of capitalism in the West, 1929-1932, lies a story of intense economic pain, without which what followed is not fully comprehensible. And that story of economic pain and social dislocation also applies to the very founding of modern capitalism and its “Creative Destruction”, 1790-1850, and especially the terrible decade of the 1840s.

In very important ways then, understanding what is happening in Western Europe today, and grasping the motor force behind the election of Donald Trump becomes an exercise in understanding, and measuring, economic and social pain. Surely their importance must be highlighted, given the dynamics of the American Presidential campaign. That campaign saw both Secretary Clinton and President Obama touting the success of his policies to tame the Great Recession of 2008-2009, and the good basic numbers of low unemployment and low inflation, and the determined, somewhat defensive assertion that “America never stopped being great.” This was in sharp contrast with Donald Trump’s relentless portrait of a country in deep economic pain, and his pledge to “Make America Great Again”, to bring back the lost
industrial jobs, rework the terrible “trade deals”, and much more. Senator Bernie Sanders' strong challenge to Secretary Clinton in the Democratic primary shared several of the major economic themes of the Trump campaign, but little else – except the challenge to the party establishment.

There are endless takes on what finally turned the election for Trump. Perhaps Naomi Klein of “Capitalism vs. the Climate” essay fame summed it up most succinctly on November 9, the day after the election:

“It was the Democrats’ embrace of neoliberalism that won it for Trump… Trump’s message was: ‘All is hell.’ Clinton answered: ‘All is well.’ But it’s not well – far from it.”

We now turn to that pain, globally and in Western Europe, and then to a closer look at it in America.

**Warnings: a world of economic hurt and social disruption**

For a world overview, let us visit briefly with former banker and prolific author Satyajit Das, whose most recent book was renamed, for the American market, *The Age of Stagnation: Why Perpetual Growth is Unattainable and the Global Economy is in Peril* (2016). In some ways it marches step-by-step along with Robert Gordon's much quoted *The Rise and Fall of American Growth: The U.S. Standard of Living Since the Civil War*, also published in 2016. Das recognizes Gordon's now famous “headwinds” slowing the growth in US productivity: demographics, declining educational attainments, rising inequality, the effects of globalization, environmental costs, and the debt overhang. These headwinds are the basis for Gordon's alarming projection of just a 0.2% growth rate, lower even than the “modest 1.8 percent of 1987-2007”.

Das presents a remarkable range of citations and information. Lest his readers wallow for too long in the dismal predictions of Gordon, he cheers them up by noting that John Steinbeck, in *Grapes of Wrath* (1939), observed that “when the monster stops growing, it dies. It can’t stay one size”. Lest he sound too uncritical in lamenting the growth stagnation, though, he consoles environmentalists with Edward Abbey's “warning: ‘growth for the sake of growth is the ideology of a cancer cell’.”

Although to the best of our knowledge it didn’t get cited during the Trump campaign, India has been, for more than a decade, building a 2,100 mile wall along its border with Bangladesh, with two purposes, says Das: to keep out “illegal immigrants,” and “future Bangladeshi climate refugees”.

Das has a powerful summary sense of where the world is poised, with slow growth and limited investment opportunities straight-jacketing most of the globe, India perhaps excepted, but not yet large enough to make up for China’s slowing. There is no certain economic crisis looming, although we have repeatedly written that no major nation has ever industrialized without a major disruption, China being the sole exception – so far. Here is Das’ warning:

“A new crisis will be like a virulent infection attacking a body whose immune system is already compromised… Large complex systems operate at the
boundary between order and disorder. They can appear to be stable, but a
sudden or small change can initiate a phase transition, which triggers a
massive failure."

It is very difficult, given the rise of the nationalist Right in Europe, and Trump’s election, not to
go back and visit some of the best early warnings about the very mixed effects of
Globalization. What comes to mind are William Greider’s 1997 book, One World, Ready or
Not: The Manic Logic of Global Capitalism, and John Gray’s False Dawn: The Delusions of
Global Capitalism, which came out one year later. It is significant to note the timing: both
coming close to the high tide of American confidence in the Washington Consensus and the
brief Clintonian golden years of 1997-1999, and the crisis solving skills of the Committee to
Save the World: Alan Greenspan, Robert Rubin, and Larry Summers.

The striking thing about both these books is that they got most of what happened since 1997
right, about 75% of the major trends by our estimate: the coming financial crises starting in
Thailand in 1997, and their spread, due to rapid flows of unregulated speculative capital; the
massive occupational disruptions occurring in the global economic pecking order, and inside
dnations themselves; the logic of the pushback being towards the rise of economic nationalism,
already foretold in the bending of American (and Western) free-trade notions, illusions, to the
benefit of the Asian exporting powerhouses, first Japan and then China – nations which have
invented their own rules of the game.

There is a lot of wisdom in each of these books, and they merit a careful re-reading by both
professional economists and thoughtful citizens today. Both also credit Karl Polanyi’s insights
into the unravelling of the last age of Globalization, and how the major dilemmas of the 1930s
are back upon us again, with the basics of Neoliberalism not far removed from the
straightjacket of the gold standard which bedeviled the West’s response to the events of
1929-1932.

In particular, John Gray, a witness to the ideological excesses of Margaret Thatcher’s
conservative government, stresses the human need for security, especially economic
security, a certain heresy when one reflects upon the very core premises of today’s economic
world. That’s a world of constantly re-inventing one’s career until the day one dies – and the
strong inclination of upper middle class economists and the professionalized meritocracy of
the Democratic Party in the United States to solve all the economic problems of inequality via
the individual’s climb through ever higher educational ladders. As author Thomas Frank has
noted acidly: “Meritocracy destroys Solidarity”. Gray also was very pessimistic about the
future of Social Democracy under the pressures of Globalization, the mobility of capital having
robbed governments of the tools they had used to combat, in some places at least, the crisis
of the Great Depression. That’s certainly the way the world looked to Bill Clinton’s eyes, and
the Committee to Save the World’s too, in the late 1990s. And that’s certainly the way it
appears to the Republican Right today; but the consistency of Trump’s views, much less
plans, on that issue, are an open question.

Do not take our words for it; please consider a few brief passages from each author, selected
for contemporary relevance. From William Greider’s One World, Ready or Not; we start with a
quote from the old corporate guru Peter F. Drucker, whom Greider believes got the drift of the
times – exactly upside down. It thus reminded us of the 2016 election stance of President
Obama and Hillary Clinton: “All is well… thanks to us.”
“The extreme social transformations of this century have caused hardly any stir. They have proceeded with a minimum of friction, a minimum of upheavals... Indeed, if this century proves one thing, it is the futility of politics...” Drucker wrote.

(Greider now): “The global economy divides every society into new camps of conflicting economic interests. It undermines every nation’s ability to maintain social cohesion. It mocks the assumption of shared political values that supposedly unite people in the nation-state. That is the fundamental reason politics has become so muddled in the leading capitalist democracies. In recent years voters have turned on established parties and leaders, sometimes quite brutally, in the United States, Canada, Italy, France, Sweden and Japan, to name the most spectacular cases. Nor is there any ideological consistency to these voter rebellions...What exactly is the national interest in these new circumstances? No elected government in the richest countries, neither right nor left, has produced a definition that convinces its own electorate...

The nationalist strand of capitalism, articulated by such eccentric figures as Italy's Silvio Berlusconi or the populist billionaire from Texas, Ross Perot, or the Anglo-French tycoon James Goldsmith, wants to defend the home country first. Some of the nationalist strands are frankly protectionist, but patriotic capitalists constitute an important storm warning for politicians in the advanced societies. Rising nationalist emotions range from the ill-focused anxieties of the American middle-class to the darker, racist fantasies of neofascism that are gaining political voice across the nations of Europe and in some quarters of America.”

And now from John Gray's *False Dawn*:

“New technologies make full employment policies of the traditional sort unworkable. The effect of information technologies is to throw the social division of labour into a flux. Many occupations are disappearing and all jobs are less secure. The division of labor in society is now less stable than it has been since the Industrial Revolution... The regime of laissez-faire is bound to trigger counter-movements which reject its constraints. Such movements – whether populist and xenophobic, fundamentalist or neo-communist – can achieve few of their goals; but they can still rattle to pieces the brittle structures that support global-laissez faire... Is a late modern anarchy our historical fate?

The corrosion of bourgeois life through increased job insecurity is at the heart of disordered capitalism... the result is a re-proletarianization of much of the industrial working class and the de-bourgeoisification of what remains of the former middle classes. The free market seems set to achieve what socialism was never able to accomplish – euthanasia of bourgeois life... How can families meet for meals when both parents work on shifts? What becomes of families when the job market pulls parents apart?
America… is a country riven by class conflicts, fundamentalist movements and low-intensity race wars. Political solutions to these ills presuppose reform of the free market. It is doubtful whether such reform is a real political possibility in America today… issues of economic justice can arise only on the farther fringes of political life. Ross Perot, Ralph Nader and Pat Buchanan all traded on popular distrust of political elites… It may be a portent for the future that only in the 1996 campaign of Pat Buchanan did issues of economic justice make a significant impact on mainstream American political life. Buchanan fused issues of economic fairness with a fundamentalist culture-war and nativist hostility to the rest of the world.”

Let us now turn to a crucial question: what was the level of economic pain driving the political insurgency of Senator Bernie Sanders, and the successful campaign of Donald Trump?

**America’s hidden pains**

We begin with some gross numbers from Das’ *Age of Stagnation*: the loss of wealth from the Great Recession of 2008-2009. Citing the work of three economists at the Federal Reserve Bank of Dallas (Tyler Atkinson, David Luttrell and Harvey Rosenblum), the figures they put on the loss to the U.S. economy come to 6-14 trillion dollars, “equivalent to U.S. $50,000 to U.S. $120,000 for every American household, or 40-90% of one year’s economic output”. We’ve seen figures of family distress ranging from $20,000-$60,000, largely representing losses in the stock market, which seem on target from direct personal experience. The other factor driving towards a more lasting economic pain are those who lost enough in straight financial terms to forestall market re-entry, matched with a psychological aversion to ever trusting it again. Additionally, pension fund retirement viability was affected by the same dynamics. These factors must be considered, as difficult as they are to quantify, to qualify the otherwise impressive performance after 2010 in the financial markets, they being supported by all the permutations known as Quantitative Easing, American and European versions.

In the fall of 2015, and in many ways now seeming to be an overlooked clue as to what was about to unfold in the election of 2016, Nobel prize winning economist Angus Deaton and his wife Anne Case (both of Princeton University) caused a sensation in the news. It was because of their research findings disclosing a dramatic rise in the death rates, by 22%, among whites 45-54 years old, among those who only had a high school degree. The dramatic mortality increase occurred in the years 1999-2014. According to the coverage and commentary in the *New York Times*, this dramatic increase in mortality rates wasn’t caused by the usual suspects – heart disease and diabetes – but by “an epidemic of suicides and afflictions stemming from substance abuse: alcoholic liver disease and overdoses of heroin and prescription opioids”. Professor Deaton declared that “Only HIV/AIDS in contemporary times has done anything like this…”

Additional commentary in the *Times*’ article, by Dartmouth College economists Ellen Meara and Jonathan S. Skinner, put the findings in further relevant context for our purposes here:

“The least educated also had the most financial distress… in the period examined by Dr. Deaton and Dr. Case, the inflation-adjusted income for households headed by a high school graduate fell by 19 percent.”
On the trail of further hidden economic distress, the Federal Reserve itself has been conducting surveys since 2013 entitled “Report on the Economic Well-Being of U.S. Households”. The most reported finding of these surveys, contained in the formal reports issued now annually by the Board of Governors, was that nearly half of the respondents, 47%, “said they either could not cover an emergency expense costing $400, or would cover it by selling something or borrowing money”. In other words, almost half of American households have no personal savings or personal financial “safety net”.

As reported in an Atlantic magazine article by Neal Gabler in the spring of 2016, in the heat of presidential campaigning, “The Secret Shame of Middle-Class Americans”, the distress goes beyond the inability to meet small financial emergencies of $400-$1,000, the range covered by the Federal Reserve surveys. Gabler introduces the research of Edward Wolff, an economist at New York University who has found that “median net worth (family net worth) has declined steeply in the past generation – down 85.3 percent from 1983 to 2013 for the bottom quintile, and down 63.5 percent for the second-lowest quintile, and down 25.8 percent for the third, or middle, quintile.”

So we are getting closer now, much closer, to answering two of our key questions: how much economic pain is “out there” in America, and how do we explain the divergence between the good “formal” economic numbers of low unemployment (under 5%) and very low inflation (2.5% average for 2016) touted by the President and his “heir apparent,” Secretary Clinton, and those remarkable pre-election poll numbers showing 70% or more Americans feel the nation is on “the wrong track”. Economist Wolff, from NYU, summarizes the crux of the matter this way: “… the typical American family is in ‘desperate straits’.”

This would be bad enough, the precarious imbalance in American household finances, which must be coupled with what William Greider and John Gray have told us is also a permanent sense of precarious employment and career uncertainty, the result of nearly four decades upheavals in production and distribution methods, and labor markets world-wide. But we have also called attention to the role of cultural upheaval in our search for the reasons underlying the triumph of Trump in 2016. While economists are likely to have a strong inclination to keep the two strands of reasoning quite separate, our contemporary dilemmas and a fuller interdisciplinary methodology calls us to inquiries resting on a broader foundation.

What we have in mind is what author and TED talk guest speaker Hannah Rosin explored in her book and lectures under the title The End of Men: And the Rise of Women (2012). The essence of her argument is that women are eclipsing men in educational attainment, in the ranks of middle management, and in founding new businesses, relying in part on their “traditional” interpersonal skills and sensitivities. We should note, as she does, that this does not mean the end to the glass ceiling still firmly in place for most of the highest institutional perches of the 1%. After all, Satyajit Das, wearing his financial journalist hat for us now, reports that women make up only about 20% of the attendees at Davos, such as it is: the actual historical location, full of ironic portent, for the setting of Thomas Mann’s novel, The Magic Mountain (1924).

The ground covered by Rosin, a skillful public speaker, seems pretty solid; unfortunately for men, this substantial rise and improvement for the freedom and careers open to women, has come at a time when the traditional careers for men in the declining industrial economy have had the bottom fall out. Thus the dramatic shifting in gender roles which has continued from its start in the 1960s, also covers the decades of demise for blue collar workers, especially in...

These books describe, in painful detail, the initial shifts inside the Democratic Party away from labor’s hopeful agenda for a new New Deal as portrayed through the fumbling of the Carter administration, thoroughly unenthused about Labor Law reform, Industrial Policy and Full Employment guarantees, and also Health Care reform. Instead, the new directions were disclosed by mighty efforts for de-regulation of the airline and trucking industries and the decidedly non-nationalist effort to cede the Panama Canal back to Panama. We shall say no more about these complex matters, other than to suggest the dynamics from a very likely scenario: of a husband coming home with a plant closing notice only to find that his wife has received a Small Business Administration loan to open a thrift shop on Main Street in Youngstown, Ohio.

Youngstown, Ohio was ground zero for the disaster which befell the entire Mahoning Valley: the demise of the steel industry, the shedding of 50,000 jobs, 1975-1985. George Packer, in his 2013 account *The Unwinding: An Inner History of the New America*, tells us that

> “If the institutions and the people who led them had understood what was about to happen to Youngstown, and then to the wider region, they might have worked out a policy to manage deindustrialization instead of simply allowing it to happen.”

Instead,

> “between 1979 and 1980, bankruptcies in Youngstown doubled, and in 1982, unemployment in the Mahoning Valley reached almost 22 percent – the highest anywhere in the country.”

Revealingly, Packer tells of the rise and fall of Youngstown through the story of a black woman’s “survivor’s tale”, a struggle and eventual career success built out of the rubble of her home town. Yet the meaning for the entire country heading into the heart of the Reagan years was crystalized by a former auto worker turned college professor, John Russo, who eulogized the disaster with the epitaph: “The idea that this was systemic didn’t occur.” That sentence was written despite the fine attempt of Barry Bluestone and Bennett Harrison to do precisely that: see deindustrialization as a systemic national economic problem, in their 1982 book, *The Deindustrialization of America*.

The “Southernization” of American politics

There remains one important task in understanding the triumph of Trump, however short lived it might turn out to be, and that is to more fully explore all the meanings suggested, and implied, by the phrase “The Southernization of American Politics”. This may seem at first strange, the connection between the long standing regional “outcast” of American life, and the successful billionaire entrepreneur from the world’s most sophisticated real-estate market, New York City. But let us try to make that connection for you, and also to re-emphasize one of the main themes of this short essay: that action and reaction in the political economy often depends on the level of pain and disruption that sets “the double-movement” in motion.
We rely upon the guidance of a little known, new work by Professor Glenn Feldman of the University of Alabama called *The Great Melding: War, the Dixiecrat Rebellion, and the Southern Model for America's New Conservatism* (2015), which in turn built upon the prior work of Dan Carter's *The Politics of Rage: George Wallace, the Origins of the New Conservatism, and the Transformation of American Politics* (1995).

Perhaps it will help to consider the transition suggested by this biographical sequence: John C. Calhoun, Strom Thurmond, George Wallace, Richard Nixon, Ross Perot, Sarah Palin and finally, Donald Trump.

This is our vastly compressed version of Feldman's longer tale, of how the South went from being solidly Democratic to solidly Republican Right in approximately 170 years, from 1840 to 2015, or slightly less, since the book opens with a jarring biography of violence from the post-Civil War Reconstruction days. We supply our own spotlight on the level of economic pain as a driver, as the seed bed for future ideological intensity.

The South at the end of the American Civil War in 1865 was a demoralized, economically prostate and federally occupied territory. It never had much industry, but what it had was ruined, as was a good part of its plantation based agricultural life. What comes into view for contemporary minds would be the images of Nazi Germany, the ruins from the spring of 1945. (Rather than the images from 1939's *Gone with the Wind*.) Despite the military defeat, and the temporary demoralization of the planter class, the urgent, promethean task of the Southern economic elite was to evict the occupiers, re-invent racial control with new mechanisms that did not rely upon formal slavery, and to eventually present an inviting new investment opportunity for northern capital, all key pathways leading to "the New South".

Just outlining the situation does not conjure up the intensity of the tasks. Feldman does, though, right up front, by shocking the reader with the sheer physical brutality visited upon the newly freed slaves and any allies they might have – Southern or from the hated North. The tools to do so were the whip, the knife, the noose at the end of the rope, and bullets. And the main ingredient in the bubbling emotional cauldron that fueled the reaction against Reconstruction was a blind fury against all things Federal, especially the federal government.

After physical control had been secured by terrors both Roman and Medieval in nature, there came the tenant farming and sharecropping systems for both the former slaves and the bottom rungs of hapless white society. But that was not all: for those who even placed one foot beyond the new lines of white oligarchical authority, there was the prison lease system: a state sponsored form of privatization for mining, agricultural plantations and timber harvesting which turned the control and rate of pay over entirely to brutal entrepreneurs who had a direct and naked interest in horrible housing, miserable food and relentless hours of the most killing forms of labor. The expected life span for many prisoners, mainly young black men, was less than ten years: worse than slavery. The physical punishments were beyond modern belief. White men and women also formed a small subset of this barely acknowledge but widespread system, and of course, under these circumstances, since the cells were shared, children were born into the nightmare. *Cool Hand Luke*, by comparison, was a deeply sanitized modern movie version, appearing in 1967.

Remarkably, however, once this system had been firmly established, the brutal and cunning leaders who had set it up moderated their conduct, and their tone, the first great "melding". They needed to do so both to attract northern financing, and to make sure the federal
government did not again threaten to investigate the monstrosity of illusion that they had built. Thus the myth of “cordial and beneficent” racial relations which could not be understood, and only be upset by outsiders. It took outrageous “Sophistic Pruning” and “Smoke and Mirrors” methods to distract from the realities, and to try to conceal the fault lines: the potential alliance between poor whites and blacks, and the always raw racial realities. We can get a hint of the great intensities behind this system of control by remembering the early speeches of George Wallace, especially his Gubernatorial Inaugural Address in 1963, the famous lines “segregation now… segregation tomorrow… segregation forever”. The speech was written by a Klansman, Asa Carter, and the intensity was genuine, a politician’s Holy Grail of authenticity on the part of Wallace, a former collegiate boxing star. Looming over their shoulders was the advancing federal juggernaut, of the Justice Department’s lawyers, and if necessary again, the 82nd and 101st Airborne divisions.

Lest this account seem too fantastic to accept at face value, we invite readers to visit historian Rick Perlstein’s essay – “Peter’s Choice” – about how a college student in an honor’s seminar in Oklahoma justified his support for Trump via the South’s old recycled tale of Federal travesty during Reconstruction, still on strong legs far from home and in the fall of 2016, no less.

The Second Great Melding, Feldman tells us, did not take place until that fateful decade for Keynesianism, American Labor, and the faltering New Deal shaped Democratic Party: the 1970s. It was the melding of the rising American religious Fundamentalists (and more complexly, the Evangelicals), who were very worried about alleged American moral decline, adverse Supreme Court decisions on prayer in the schools, abortion, and tax exemption for private religious schools… and the dawning recognition that an alliance was possible with the higher stratospheres of American business, then suffering from declining profit rates, foreign competition and over-regulation.

It is best to let Feldman summarize these permutations for us, how a transformed South became the template for a transformed Republican Party, where the ideological goal posts had not just been shifted, but also the “fifty-yard line” itself:

“Character, values, religion, and patriotism would become something that could be termed ‘The New Racism,’ condemning a whole set of ‘New Negroes’ to the fingers of southern society: feminists, the environmentally conscious, intellectuals, liberals, the secular, those who questioned war or unlimited military spending… the conservative orthodoxy would be a self-satisfying type, soothing to its beneficiaries, with all the nineteenth century platitudes about deserving thrift, superior ingenuity, work ethic, and the entrepreneurial spirit – yet with race securely in place as its vital subtext, and Calvinistic exclusivity openly preached. Despite the veneer and the ceaseless chatter about ‘givers’ and ‘takers,’ and the love of ‘producers,’ the new Republican orthodoxy would be just as narrow, just as exclusionary, and just as unleavened as the old southern Democratic conservatism had been…

During this period, southern conservatives were hard at work perfecting the techniques of mass distortion that lent themselves to a politics that compelled loyalty based on emotion and gut-level appeal rather than rational thought and reality-based analyses of policy. The liberal alternative – so dependent
on rationality, shades of grey, complex argument, and critical thought – didn’t stand a chance.”

If that seems a bit too much to take in via one breadth, just reflect upon poor Michael Dukakis’ fate in the Presidential campaign of 1988 when he was asked in a televised debate how he would respond if his wife had just been raped by a criminal like Willie Horton… and then reflect also a bit upon the career and background of the late Lee Atwater, political attack dog extraordinaire.

Conclusion

The main thrust of this essay has been to emphasize the miscalculations Neoliberalism has made in the West in two major respects: underestimating the economic pain visited upon its middle and working classes due to de-industrialization, and also underestimating the impacts from the uncertainty surrounding the remaining jobs – the loss of predictable careers.

While Donald Trump has skillfully mobilized these pains, it is not clear he has come up with a coherent economic policy to correct them. He has no “mandate”, having lost the popular vote soundly, and his working class success was a matter of a few hundred thousand votes scattered across key states, not tens of millions “converted” across the country.

Where we can find economic coherence, it follows the likely tax cutting and militarized Keynesianism of the Reagan years, which will not reach those in the bottom rungs of the economic system. In mid-February, a month into his first hundred days, his economic policies have not even been broached in Congress; the infrastructure program is without form or substance.

There are enormous strains that comes with the Trump package: his alliances with the Religious Right and the shadowy world of the Alt-Right. It is not clear at all that he can maintain peace among the major forces in the Republican Party, much less the nation, and it will be very difficult to construct a new “nationalism” if he has lost the confidence of American international corporations and the national security state.

The great tragedy is this: a more vigorous form of social democracy would seem to produce the best of both worlds, keeping the international trading system largely intact and recycling the wealth which has gone upward to the 1% downward into job programs, guaranteed jobs even, for all the useful work that needs to be done.

However, given the existing economic ideology in the West, as we noted in the case of Germany towards the periphery, and because of the intense anti-governmental obsessions from the “Southernization” of American politics, the tools needed to reintegrate the working class into the broader economy, and give the middle class a greater sense of security, have been cruelly undercut. And it is not clear that Donald Trump himself would understand, or agree with, a word of what we have just written.

Nonetheless, the Neoliberal influenced Democrats have failed to connect emotionally with those hurting the most, and the party is facing a sea of red conservative voters in the South and much of rural America, and they have lost control of state house after state house.
The economic mainstream bears some responsibility for this, as the reaction of four of its “stars” indicated when they jumped all over an economist in February of 2016 for being “irresponsible” for running the numbers of Bernie Sanders’ economic policy proposals, and finding good outcomes.

William Greider perhaps put it best in the final chapter of One World Ready or Not: “…modern economists have become the ‘thought police’ in advanced societies, as futurist Hazel Henderson observed.” And their rigidity, especially in forbidding New Deal type interventions into labor markets, have helped make the looming disaster of Donald Trump possible. We haven’t changed our mind over the past year: America looks ungovernable right now and it will be surprising if Trump can survive four years.

We will close with two personal recollections from 2015-2016. One came from a Rush Limbaugh broadcast, where the famous conservative broadcaster was lamenting the left-liberal war on “producers”, via the efforts to stop global warming. Limbaugh said that no benign Creator could ever allow the alleged coming catastrophes of global warming to actually happen, since they were the fruits of His own creations’ inventive, industrious genius, of people bettering their lives. No complexities, contradictions or limits here, to be sure.

The second occurred on a beautiful late summer evening’s walk under a spectacularly colored sky with high cirrus clouds and jet vapor trails blended together. We had passed fellow citizens in Western Maryland looking up at what we thought was the same view, and commented to them about it. In return, they said there was more going on than nature’s artistry: those jet contrails were spewing toxic fumes and infectious biological agents, a joint enterprise in perfidy by the airlines and the federal government to harm the good citizens. Looking up the plot online when arriving home, sure enough, that was the outline of things to come.

After that revelation, much of what has happened in the realm of political economy seemed to fall into place. Or into a bottomless pit. History has given us more than a few previews on the possibilities, but not yet, hopefully, the inevitabilities.

**PS Disclosure:** this writer was a Bernie Sanders supporter in 2016.

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You may post and read comments on this paper at https://rwer.wordpress.com/comments-on-rwer-issue-no-79/
Trumponomics and the developing world
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So now we know: unlike many other politicians, President Trump will indeed do (or try to do) many of the things he promised or threatened to do before he was elected. Internally, he is apparently seeking to bring back a 21st-century version of Reaganomics: a combination of rising fiscal deficits resulting from lower taxes (especially on the rich) and more public spending on the military and on physical infrastructure, with higher interest rates delivered by the US Federal Reserve. He will deregulate private activity further and reduce various protections for labour and the environment that he believes constrain investment. He sought (unsuccessfully) to replace the Affordable Care Act or Obamacare, albeit with little clarity on what to replace it with, and seeks to reduce public spending on various social programmes. All this is supposed to create a domestic boom led by private investment, that is presumably to be financed once again by foreigners willing to pour their savings into US financial assets, particularly Treasury Bills. And some have predicted that such a US boom will once again pull the world economy along through the increased demand it will generate for the rest of the world’s exports.

Externally, he has already moved the US out of some committed trade deals like the Trans Pacific Partnership and showed a propensity to undermine the World Trade Organisation if it does not work in a way that he perceives to serve US interests. His administration is already promising protectionist measures and looking at ways to impose unilateral sanctions against other WTO members. He is seeking to reduce immigration by deporting some who have already made it inside the US, and to place significant curbs on future immigration as well as on short-term movement for service delivery, through H1-B visas. He will try to build a wall on the Mexican border and raise tariffs on imports coming from other countries: most symbolically Mexico and China, but also potentially developing countries in general. He will reduce US spending on and engagement with international organisations like the United Nations and probably ignore US pledges and commitments to treaties that seek to address global warming and related issues.

His foreign policy is at present a confused mixture of aggressive bullying and personal support for other aggressive bullies elsewhere, but it is safe to assume that ultimately there will be more continuity than real change in this matter. Given the complete mess that US foreign policy has created in the world over the last few decades, that continuity is not necessarily very good for the rest of the world. Such change as does occur is likely to be adverse for progressive people in his country and across the world: it is not just Palestinians and those fighting against authoritarianism in Turkey, Egypt, India and the Philippines who

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have cause for worry, but people everywhere who are concerned about preserving and enlarging democratic rights. If there is one agenda that is now much more likely to be trampled upon globally, it is that of human rights.

But how much of this agenda can Mr Trump actually achieve? And how much of this is self-contradictory, in that movement in one direction will generate changes that affect other parts of the agenda or the goals? The declarations sound disruptive, but how much difference will all this sound and fury make in material terms? The answers to these questions are crucial not only for citizens of the US. They matter hugely for the rest of the world and developing countries in particular, because the US economy still remains dominant and affects global demand directly and indirectly, and because the continuing significance of the US dollar as the main global reserve currency affects both financial and real flows across countries.

It is probably over-optimistic and even misplaced to believe belief that Trumponomics can generate a boom in the US and thereby in the rest of the world, along the same lines as the Reagan boom. It is not just that the world economy is different from three and a half decades ago and that global capitalism has altered in significant ways; it is also that much of what he proposes is unlikely to work out as planned, given the political economy forces in the USA at the moment and the contradictory nature of the various impulses in his administration.

It is not just the failure of his attempt at health reform that generates more scepticism about any future possible successes. It is also the internal contradictions in his policy proposals. Consider the issue of whether President Trump will actually deliver in terms of generating a new boom with sustained medium-term growth of activity and employment. The basis for this is supposed to be the perception that increased public spending and lower tax rates will provide a fiscal stimulus to boost the economy, even if it does at the same time increase inequality and disproportionately favour the rich. But the second outcome is far more likely than the first. As of now, the precise tax proposals that the Trump administration itself favours are not known; but the version being pushed by the Republicans in Congress led by Paul Ryan is supposedly “revenue neutral”, in that it balances tax cuts in some sectors and categories with reduction of deductions in the same or others. The overall macroeconomic benefit of this would obviously be limited, although it may well imply a further redistributive shift away from working and middle class families in favour of the country’s corporations and rich individuals.

In any case, tax cuts alone are known to have limited impact – even the IMF has recently estimated that the multiplier effects of tax cuts generally tend to be much lower than increased public spending, regardless of the beneficiaries of such cuts. Reagan’s strategy “worked” in the 1980s because of the massive increases in military spending that generated new investment by the military-industrial complex, which in turn had spillover effects in other sectors and in terms of technological change. But it is not at all clear that Mr Trump is actually planning such significant increases in government expenditure. The big increases in military spending in his proposed budget are counterbalanced by equivalent cuts in other spending, particularly spending on social programmes. And even these increases may be diminished by the Congressional process.

Much of what Trump has talked about as public investment actually comes in the category of “Public Private Partnerships” (PPPs), in which the government does not invest directly, but underwrites a significant part of the private investment or enables the securing of cheap loans for private investment. There is good reason why this strategy has had such a bad press
recently: most countries that have relied heavily on it have found that the actual levels of investment turn out to be much lower than anticipated or planned for, while the fiscal costs tend to be much higher and more prolonged, because the user charges that would cover costs typically turn out to be so high that they are politically impossible to enforce. In other words, these PPPs in most cases have not delivered in terms of actually providing the required physical infrastructure. So a heavy reliance on PPPs may suit several of Mr Trump’s cronies and those (including in real estate, a sector of particular personal interest to the US President) who would benefit from certain infrastructure investments, but they are unlikely to generate the kind of increase in investment rates that is being apparently being anticipated by the over-enthusiastic stock markets.

In any case, another political reality that President Trump will have to contend with is the continued presence of the Tea Party as a major lobby affecting both Congress and government functioning. In a peculiar way, the Republicans now seem to have tied their own hands because of the political predilections they created when in opposition. This group is so viscerally opposed to any increases in deficits that any real change in fiscal stance towards a more expansionary role would have to be achieved through subterfuge, if at all it is to occur. This political constraint has not appeared so clearly yet, but it definitely still exists, especially as so many Republican Senators and Representatives have been elected on precisely such a platform.

So the fiscal expansion that has been so eagerly anticipated (not just in the US but even globally) on the basis of the declarations of the US President is not likely to be all that significant. And it will come in combination with a monetary policy “shock” in the form of higher interest rates, in an economy that has grown used to near-zero interest rates for nearly a decade now. This could well attract mobile capital back to the US – and thereby cause different degrees of discomfort or crisis in many emerging markets – but that in turn will cause an appreciation of the US dollar, which too must affect profitability in the tradeables sector. In purely macroeconomic terms, it is hard to see how this combination can deliver significantly higher economic growth or employment.

What then of the other strategies, the physical and trade walls both designed to protect US residents from the depredations of foreigners? The infamous wall along the Mexican border has already overrun cost expectations even before work on it has started, from Trump’s original estimate of $10 billion to around $15-20 billion or even more now. But while that may seem expensive for an ugly and offensive piece of landscaping, if it is seen only as a Keynesian stimulus, it would not amount to very much. And the economic effects of that spending for the US would in any case be questionable, since reports suggest that Mexican workers (both legal and illegal) are far more likely to be employed in the work of building it.

The other wall – the imposition of high punitive tariffs on goods coming from Mexico and China, as well as from other countries seen as “threats” to US production – may well get a few dramatic and highly symbolic gestures in its direction, and may mess up trade relations for a while. How serious and sustained this attempt at protectionist nationalism in trade terms will be is not yet clear, but certainly it will be less emphatic than the cronyism that is already so evident. It is more than likely that the President’s basic and well-known instinct for pushing business and profit, irrespective of the impact on workers or consumers, will win over the protectionist rhetoric that helped him get elected. In any case, punitive tariffs against one set of countries would simply divert trade rather than generate local production. Wider protection, sufficient to really alter the trade balance, is not really on the cards. But for well-known
reasons, it would do very little to bring manufacturing jobs “back” to the US, and technological changes will continue to erode the employment possibilities of such production at an ever-increasing pace. So the workers and other non-traditional voters who installed Trump in his current position are unlikely to get even some of the benefits they expect, regardless of statements to the contrary. Instead, they are more likely to experience a worsening of material conditions because of spending cuts and other changes in institutional conditions that reduce their entitlements.

Mr Trump’s policy stance will, however, mean that the United States – which has been providing less and less of a positive demand stimulus to the rest of the world economy ever since the Global Financial crisis – will continue to shrink its import demand and add to the forces that are making global trade decelerate and even decline.

What does all this mean for developing countries? First, that those who are worried are right to be worried, but perhaps not for the reasons most commonly cited, such as the threat of trade protectionism. Rather, Mr Trump presents a disruptive force in an already febrile and volatile global economic environment, which is weakened not by his election, but because global capitalism had clearly reached the limits of pushing that particular strategy of accumulation. This was increasingly evident in the “secular stagnation” that seemed impervious to massive injections of liquidity and near zero or even negative interest rates, and in economic trajectories that no longer seem to generate stable and regular employment. In turn, the disruption that Mr Trump generates in turn is only partly because of his actions, and probably even more because of the very impact that his statements and the surrounding chatter have on expectations, both in financial markets and in real economic activities.

The most immediate likely concern is that of capital leaving emerging markets once US interest rates are raised, and the potentially disorderly situations this can create. Developing countries have already experienced this several times in the past decade, and have learnt the hard way that policy decisions taken and economic processes in the US are far more significant in determining capital inflows and outflows from their own countries than any measures taken within. The resulting volatility is likely to be compounded by further financial deregulation that will spread from the US to other countries. Since the already inadequate re-regulation of finance that occurred after 2008 in the US is on its way to being dismantled, this will create pressures for associated deregulation even in other developed countries, and add to similar tendencies in emerging markets. This is doubly dangerous for many “emerging markets” because many of them had responded to the global crisis by allowing massively leveraged expansion, and much of that is currently in the process of winding down. Asset markets – particularly of land and real estate – are experiencing a downswing in most countries, rendering them especially vulnerable to financial crises that could originate from an initial outflow of capital to the US.

Obviously, this would be exacerbated by the disruptive impact on global trade that several proposals of the Trump administration are likely to have. The ongoing slowdown in international trade is likely to get worse, and also more uncertain with the unpredictability of US moves. Conflicting signals coming from different elements of the US Government, and even from its leader over time, only add to confusion and reduce the incentive for even medium terms investment in tradeable sectors. Export of commodities from South to North, which powered the expansion of some economies and provided much cheaper goods to consumers in the North, is unlikely to be an engine of growth in the immediate future. This sounds like bad news for many developing countries, and will be so in the short term, but it
need not be so bad if it forces a different approach from one that focusses on exports to the North (and therefore treats wages only as a cost), to one that looks at potential in domestic markets and regional arrangements (and therefore treats wages also as an important source of demand).

Certainly, no tears should be shed for the Trans Pacific Partnership. It was a bad deal, that did little to enhance desirable trade; instead it provided inordinate power to corporations, through stringent and unwarranted acceptance of tight intellectual property rights monopolies, reducing possibilities of public regulation in the interests of workers, the environment and the health and other human rights of citizens; and allowing investor-state dispute settlement in wide-ranging cases. These would definitely have harmed workers and consumers in all the member countries. Developing countries that had put so many eggs into that particular basket will now be forced to think more creatively about both trade and policy options, which would not be an adverse outcome. The danger is that – despite the breakdown of this agreement – such deregulation and greater power to corporations will be granted anyway by the Trump administration, and sheer competitive pressure will then force governments across the world to fall in line. Avoiding this worst-of-all-worlds scenario will require constant public vigilance and mobilisation in all countries.

Similarly, financial markets will definitely be more unstable and volatile, and countries across the world may well have to brace themselves for another round of financial crises. This time, the implications may be worse because of the difficulty of using the same old solutions of large publicly funded bailouts to rescue banks and other financial institutions. The global race to environmental destruction pushed by further deregulation in the US and egged on by international competition in trade and investment, will also have to fought with public pressure in all countries.

Another concern for developing economies comes not from the economic policies of the Trump administration but from its foreign policies. Clearly, those who in the period prior to the election had seen Hillary Clinton as a greater threat to global security than Trump because of the extreme hawkish position on Russia had got it wrong. President Trump has assembled some of the most hawkish of military characters in his team, including those who were proponents of the Karl Rove version of “the new American century” under George Bush, and has already engaged in one military operation (however botched) and proposed others in the Middle East. His attitude to Russia may be confused, but that to China is more definitively aggressive. Global conflagrations need not start with direct engagements between the great powers; rather through history they have begun with more minor conflicts that explode out of proportion as the big powers get drawn in. Such possibilities are hugely possible with this US administration, and once again the danger for developing countries is that the wars will be fought on our territories and between our peoples. The propagation by the current US government of a sullen, petty-minded pseudo-nationalism is already finding echoes in too many other governments, including in the developing world where this attitude also similarly involves the suppression of any kind of domestic dissent. This is not just bad for internationalist co-operation and for democratic space within countries: it also affects economic flows and processes between countries and therefore within them.

So is it all bad news, with the gloom and doom justified? Not entirely. Periods of disruption are unpleasant and do throw up all sorts of outcomes, often mostly bad. But they are all periods when the older certainties are thrown aside, and some of these deserve to be discarded. The belief in “free” trade and globalised capital being all that is required for
development was always wrong, but now it simply cannot be entertained. This must force more creative thinking about economic strategies in different parts of the world. Such thinking about economic strategies will have to come out of both the intellectual and the institutional straitjackets into which they had been put over the past decades. The confusion and disarray in the multilateral economic organisations that will definitely come about during this US administration and the resulting free-for-all in global economic architecture are certainly likely to reduce the possibilities of international co-operation significantly. But they may also open up policy spaces for developing countries seeking to change their position in the international division of labour, and generate more possibilities for autonomous industrialisation and development. This is not going to be easy, and obviously requires changing political economy configurations in many countries – but then, through history, the various paths to progress have never run smooth.

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You may post and read comments on this paper at https://rwer.wordpress.com/comments-on-rwer-issue-no-79/
Nature abhors a vacuum: sex, emotion, loyalty and the rise of illiberal economics
Julie A. Nelson [University of Massachusetts, Boston, USA]

I was just as stunned, initially, as many of my fellow American by the results of the 2016 presidential election. I could see reasons why people might vote for “change” over more mainstream political leadership, especially given that both parties have been quite cozy with Wall Street and have failed to address the wage stagnation affecting the bulk of the population. But I thought that any reasonable person would be revolted by the narcissistic, juvenile, bullying, lying behavior of the Republican candidate, and realize that he was clearly unfit for office. As an economist, I was taken aback by the variously kleptocratic and fantastical aspects of Trump’s intended economic directions. As a feminist and ecological economist, I was especially appalled by Trump’s braggadocious pussy-grabbing and climate-change-denying. While, according to the popular vote, a majority of voters saw Trump this way, my assumptions clearly did not apply to a substantial and vocal minority.

On further reading, conversing, and reflection, however, I’ve come to think that the causes of this disastrous event are not unrelated to something that I’ve been writing about for a long time: the inadequacies of the mainstream neoclassical economics orthodoxy. Mainstream economics and liberal political philosophy have in common a particular story about human beings and how we relate to each other in society. Both have emphasized individuality, reason, freedom, and a marketplace or public sphere in which agent-citizens interact, at somewhat of a distance, as peers and equals.¹ Both have, correspondingly, neglected much about what makes us human, and about how we evolved as social beings. My serious mistake was in thinking that we, as a discipline and a society, might be able to move past this one-sided view in a positive direction.

So this essay will be largely a personal reflection, drawing on my own past work. I will highlight the vacant spaces and weak spots in mainstream economic and political analysis that Trump and his handlers were able to so thoroughly exploit. And, I hope, I will give some small gleam of hope about how we might prevent a new Dark Age.

¹ See (Meagher and Nelson, 2004). An assumption of at least relative equality is implicit in the model of optimizing agents and unfettered competitive markets that lies at the core of mainstream economics. The idea that market activities lead to welfare-maximizing outcomes is only even mildly plausible if one also assumes that everyone has an endowment of resources sufficient to make life – and choice-making – possible.

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The void in neoclassical orthodoxy

Since the 1990s, I and some other feminist economists have been pointing out that the mainstream discipline of economics has a profoundly masculinist bias. That is, aspects of human nature, experience, and behavior that fit a culturally “macho” mold have been emphasized and elevated, while those that are culturally associated with a lesser-valued femininity have been ignored.

The neoclassical orthodoxy focuses on markets and perhaps the public sphere, but categorizes families and unpaid work as “non-economic”. The discipline adheres to exaggerated notions of (strictly logical) reason, while neglecting emotion and embodiment. It sees the economy in terms of autonomous agents, while glossing over all connection, dependency, and interdependency. It elevates self-interest, considering an interest in the well-being of others to be an anomalous and largely unnecessary trait. It defines objective “rigor” in terms of detachment and abstraction, treating normative or moral concerns as overly subjective, and assuming they can be safely denied or excluded. It elevates mathematical proof and fine-tuned econometric methods while downplaying detailed, concrete observation and good, verbal narratives.

These are all legacies of particular, and peculiar, Enlightenment notions of human nature and of science. Susan Bordo wrote,

“The Cartesian ‘masculinization of thought’, is one intellectual ‘moment’ of an acute historical flight from the feminine, from the memory of union with the maternal world, and a rejection of all values associated with it” (Bordo, 1987, p. 9).

James Hillman has written,

“The specific consciousness we call scientific, Western and modern is the long sharpened tool of the masculine mind that has discarded parts of its own substance, calling it ‘Eve,’ ‘female’ and ‘inferior’” (quoted in Bordo, 1986, p. 441).

The counterpoint to “rational man”, Elizabeth Fee has pointed out, is

“woman [who] provides his connection with nature; she is the mediating force between man and nature, a reminder of his childhood, a reminder of the body, and a reminder of sexuality, passion, and human connectedness” (Fee, 1983, p. 12).

While other schools of economics that share the pluralist umbrella have pointed out the limitations of various orthodox assumptions, I believe that feminist economics has made a unique contribution in pointing out the systematic – and unremittingly gender-biased – nature of the assumptions and exclusions made by the orthodoxy.

Of course, recognition of the gender biases in the profession is only a first step. Some would try to reassert that “masculine is good”. Others, doing what I call “feminine” economics, try to simply turn the tables: disavowing competition and self-interest, for example, they call for a discipline – and society – founded exclusively on cooperation and altruism. To me, that is still
playing with half a deck. The variant of femin*ist* economics that I have propounded seeks to go further. I have wanted to think past the dualism, to think about characteristics we all – men and women both – share, and to explore how one-sided views of any kind tend to create traps.

**Recognizing connection and emotion**

Take, for example, the notions of autonomy and dependence. In classical liberal political thought as in economics, the citizen-agent is self-determining, self-sufficient, and ready for active participation in the polity or the market. If you asked where women were in this model, up until perhaps the 1960s, you would be told that women were “dependents” of their husbands or fathers. As it was once stated in British common law, in marriage “the two become one, and the one is the husband”. Yet no one – child or adult, man or woman – is ever really self-sufficient. The attainments of “self-made men” are always dependent on the invisible services of mothers, wives, and others. We have called this the myth of the “separative self”. The idea that women magically dissolve into subservient roles we labeled the myth of the “soluble self”. Getting beyond these myths, we can recognize that we are all, always, both individuated – distinguishable from those around us – and thoroughly connected, though our social and material constitution.

I proposed a “gender-value compass”, shown in Figure 1 to illustrate this point. The top two cells show a positive complementarity: The recognition that we are all individuals-in-relation. The M+ to F− diagonal shows our usual, dualistic way of looking at things, e.g., superior masculine individuality versus the invisibility of women. Yet the M− cell shows what actually happens if we emphasize “masculinity” alone, as the F− cell likewise demonstrates for “femininity” alone.

**Figure 1** The gender/value compass for individuality and relation

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Going one step further in this analysis – before we turn back to looking at Trumponomics – one can use this diagram to think about a variety of possible human relations.³

Three fatally partial – if not outright negative – images are based on the bottom half of the compass:

- **Separative-separative (arm’s length):** When separative selves interact with other separative selves, such interactions must be purely external. This is the fundamental

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² This analysis was introduced to feminist economics by Paula England (1993, 2003) and myself (1992), both of us drawing in turn on the work of theologian Catherine Keller (1986).
³ I introduced this typology in Nelson (2006). However, I elaborate more here about their emotional and political dimensions.
story about the nature and interactions of “citizens” in liberal politics and “agents” in neoclassical models of markets. This image appeals (only) to desires for self-preservation, self-sufficiency, and individual autonomy. Society, in this view, is only an agglomeration of individuals, perhaps bound by a freely entered “social contract” modeled on idealized market contracts.

- **Soluble-soluble (merger)**: When soluble selves interact with other soluble selves, the image is of complete merger. Less noticed, this is the implicit assumption about the interior of an entity, when talking about “nations”, “firms” or “households” as if they were, themselves, individual agents. At a political and emotional level, being “part of a movement” gives one a sense of identity with something larger than oneself, appealing to the human need to belong. Solubility has other attractive features as well: it absolves one of some of the burdens of individual moral responsibility, and allows one to feel virtuous about one’s altruism and self-sacrifice.

- **Separative-soluble (domination)**: When a separative self interacts with one or more soluble selves, the result is a strict hierarchy. The soluble selves take orders from and support (albeit invisibly) the separative self, who is perceived as autonomous, active, and in control. The separative side offers those who take on its role feelings of great power, while people who put a high value on loyalty, obedience, and sacrifice may find some sense of meaning in life through the self-abnegating service and hero-worship involved in the corresponding role of solubility.

But the top half of the diagram reminds us that more authentic, fuller, individuals-in-relation ways of being, are also possible:

- **Mutuality**: When individuals-in-relation treat each other with respect and consideration, so that the relation is supportive of the positive formative process of each. This has two important sub-types:

  - **Symmetric mutuality**: mutuality between similarly-situated persons. Relations among equals do not need to be purely external and arms-length. A richer notion of liberal society imagines that justice, cooperation, vision and community spirit inform and motivate “equal” adults.
  - **Asymmetric mutuality**: mutuality in relations characterized by unequal power, status, ability or resources. In the real world there are adults and children, people with greater abilities and people with lesser, and people with more economic and political resources and people with less. Yet these do not have to be relations of domination. Imagining a “good society” in the face of asymmetry requires valuing good leadership and authentic care, perhaps calling on the metaphor of a nurturing family.

My hope had been that by expanding our liberal economic and political philosophies beyond their hyper-fixation on the individual, we might be able to recognize and analyze the wider variety of more complex relationships that, in fact, play large roles in structuring our society, economy, and civic life. By recognizing the diversity of ways in which we imagine our relationships, I hoped we could become both more knowledgeable and more wise. In particular, I hoped we could become more cognizant of unhealthy relations of domination, and try to replace them with healthy relations of mutuality.

Liberal thinkers may find it relatively easy to imagine respectful, supportive, and warm relations occurring among peers (symmetric mutuality), since this image preserves a basic
sense of equality. But relations of care and of responsible leadership (asymmetric mutuality) are equally important – even if they may initially seem to belong to the realms of nature, and of monarchy modeled on a paternalistic family, that Enlightenment thinkers tried to leave behind. I have even suggested, as a counterpoint to a tendency to associate relationships of care exclusively with women, that we revitalize the old notion of “good husbandry” (coming from images of careful tending of crops and animals) to inspire more care on the part of men, and more care within culturally masculine-associated realms including finance and commerce (Nelson, 2016).

I have also argued that, along with freedom and reason, economic analysis and policy needed to take into account the very real human desire for affiliation and capacity for emotion (Nelson, 2004). This is illustrated in Figure 2.

**Figure 2** The “gender/value compass” for reason and emotion

<table>
<thead>
<tr>
<th>rational</th>
<th>emotional</th>
</tr>
</thead>
<tbody>
<tr>
<td>inert</td>
<td>impulsive</td>
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</table>

Feelings both inform us and motivate our actions. The word “emotion”, in fact, comes from Latin roots meaning “out-move”. Reason can help us determine what the right thing is to do, but reason alone gives us no impetus to actually do it (Damasio, 1994).

In *Ecological Economics* in 2013 (Nelson, 2013), I wrote that I hoped that we could move away from one-sided 17th- and 18th-century notions, which I called “Enlightenment Beta” to a full-fledged, more inclusive and useful “Enlightenment 2.0”. Enlightenment 2.0 would build narratives that appeal to profoundly human moral drivers including community, loyalty, and the sense of being part of something much larger than oneself, as well as respect for the individual. It would be geared towards action, not just analysis, and towards building resilience in worst and uncertain cases, not just efficiency in best cases and in a known, predictable world. I had hoped that we could, by developing a more adequate discipline of economics, contribute to a more just and sustainable society. Recently, I have argued that fear of fear – an emotion thought of as especially “unmanly” – is both biasing our empirical research (Nelson, 2014) and playing a role in our inability, as a society, to address climate change (Nelson, 2015).

We have been, by and large, repressing of all notions of connection and emotion with our Enlightenment Beta notions of economic and political life. I hoped that we could incorporate these in a good way and grow more wise, loving, and hopeful.

**The rise of Trumpism**

But we did not. This left a vacuum.

Various scholarly commentators have been pointed out this hole, and how Trump filled it. Linguist George Lakoff has for many years chastised Democrats for running campaigns that largely appeal only to voters’ reason, while neglecting to hit hard on values, emotions, and
powerful language and narrative (Lakoff, 2004, Lakoff, 2016). He explains the rise of Trump in terms of emotional appeals to a metaphorical understanding of the nation as a “strict father family”, to the idea of a well-ordered hierarchy, and to hero worship. Sociologist Arlie Hochschild’s extensive fieldwork among Tea Party supporters in environmentally poisoned areas of Louisiana revealed strong values related to loyalty, sacrifice, family, community, and church. Being a Trump supporter offered the opportunity of belonging to a movement, and a “giddy” sense of emotional release from the constraints of being “politically correct” (Hochschild, 2016, pp. 228, 234). The “deep story” by which people understood their lives pictured government – not in a classically liberal way as being the result of a social contract, or in a richer liberal way of embodying community – but (a la “free market economics”) as a domineering force stealing their money and their freedoms (Hochschild, 2016, p. Chap. 9). Psychologists Jonathan Haidt (Haidt, 2012) and Joshua Green (Greene, 2013) have likewise noted the diversity of deep human moral values, which include loyalty and sanctity, and the tendency of liberal rhetoric to appeal to only a narrow, individualist band.

Arguments based on reason and facts alone make little headway when confronted with powerful metaphors, deep stories, and moral intuitions, which in turn may be powerfully supported by habit, stories, and ritual. Taking a longer-term view, author of works on religion Karen Armstrong describes how an exclusive focus on logos to the exclusion of mythos has created a “void at the heart of modern culture” (Armstrong, 2000, p. 370). Logos is the factual, scientific understanding in which “[e]fficiency was the new watchword” (Armstrong, 2005, p. 121). Mythos, on the other hand, refers to the spiritual and intuitive ways in which we come to understand the meaning and value of our lives. She writes of how this vacuum has given rise to “numbing despair, a creeping mental paralysis, and a sense of impotence and rage”, “fearful and destructive unreason”, “destructive mythologies [that] have been narrowly racial, ethnic, denominational and egotistic, and attempt to exalt the self by demonizing the other” and one who “seeks not heroism, but only barren celebrity” (Armstrong, 2005, pp. 122, 129, 136, 143). While Trumpism was not what she was pointing to at the time, it certainly fits her description.

And the discipline which most epitomizes “[e]fficiency as the new watchword” is, of course, economics. While trying to model itself on an image of detached, fact-based logos, it in fact has become a powerful though ultimately harmful mythos. In the mainstream economic orthodox myth, only separative-separative human relationships matter and economic self-interest rules. Feminist economics had attempted to turn the field back towards a richer and more factual basis, by pointing out the importance of power, care, and narratives (Ferber and Nelson, 1993). We made little headway (Ferber and Nelson, 2003). What we have seen, instead, is this void being filled, at a large-scale social and political level, by emotions and connections of a destructive sort: hatred, anger, unreasonable, and xenophobia. The excesses of neoliberal doctrines have not been superseded by the sort of Enlightenment 2.0 I envisioned, but instead by a raging illiberalism.

**Where do we go from here?**

The world has, alas, seen the rise of this sort of unreason before. Reason will be one of the tools with which we can address it, but only a weak one unless we leave behind Enlightenment Beta strictures and learn to deal with broader and deeper dimensions of human experience.
The media bring me daily news of lies, hatred, and fear. As an economist, I still aspire to create knowledge about the economy – about how societies organize themselves to provide for the survival and flourishing of life, or fail to do so. As a feminist economist who has worked on issues of care, I still want to work on the side of love. As an ecological economist who has worked on issues of climate change I still want to work on the side of hope. As a teacher, I still value educating students minds and hearts. As citizens, of the United States or of the earth, we cannot give up.

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Is Trump wrong on trade? A partial defense based on production and employment
Robert H. Wade [London School of Economics and Political Science, UK]

“Free trade assumes that if you throw men out of work in one direction you re-employ them in another. As soon as that link is broken the whole of the free-trade argument breaks down” (J. M. Keynes, evidence to the Macmillan Committee on Finance and Industry, 1930).

Like Gresham’s Law, “alternative facts” drive out facts.¹ If the economics profession had not decided long ago that the argument to be made here is wrong, we might not have President Trump.² We might not even have the deep cause of his success – the angry, indignant mood infecting swathes of western electorates.

Most of the 63 million Trump voters (47 percent of those who voted) express anger and indignation at elites who have been shredding the bargain on which complex democracies rest. They see those elites as taking a share of income and wealth beyond any plausible measure of social value, squeezing the last cent out of their workers or customers, and seeming to care little for the insecurities thrown up by technology and globalization. Of total employment growth in the US between 2005 and 2015, insecure employment in the categories of independent contractors, on-call workers and workers provided by contracting companies or temp agencies accounted for fully 94 percent.³ Outsourcing of employment plays a big role in what David Weil describes as the “fissuring” of the workplace – depressing wages, magnifying income and wealth inequality, and generating a pervasive sense on the part of those at the wrong end of the fissuring that the world is cheating them, making them angry in return.⁴ On top of this, many Trump voters are angry that the government is giving handouts to “shirkers”, and sticking them with the tax bill.

¹ Thanks to Adrian Wood for this sentence and a version of the next one.
² Trump also surfed on widespread perception that the political system is illegitimate. The latter perception is substantiated by surveys of thousands of election experts asked to assess the quality of hundreds of elections around the world, whose average put the US as 52nd among 153 countries on “electoral integrity”, as reported by the Electoral Integrity Project. Reported in Eduardo Porter, 2017, “Dysfunction in U.S. democracy”, New York Times (International), January 5. US voting turnout is one of the lowest in the developed world. In 2016 232 million citizens were legally entitled to vote; only 132 million did so (57%).

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They now see themselves as, finally, members of a winning team (“we won, you lost, get used to it!”). They affirm their leader’s strikes against pillars of the “establishment” order (including the media and even the judiciary), and they forgive the administration’s lies, “alternative facts”, authoritarianism, chauvinism, and billionaire composition at the top.  

But we should not understand Trump’s victory as a *sui generis* case. It fits the larger pattern in the developed world whereby financial crises tend to empower the far-Right in their wake. A recent study by Michael Funke and colleagues examines political effects of financial crises in 20 developed countries over the past 140 years and 800 elections. They find:

1) government majorities shrink after a financial crisis, political polarization increases;
2) policy uncertainty increases;
3) voters tend to be drawn to the far-Right, which typically attributes blame to foreigners or minorities; on average, vote share of far-Right parties increases by 30% after financial crises; these effects are much stronger after financial crises than after ‘normal’ recessions or macroeconomic shocks that are not financial. 

The study suggests that the current wave of electoral support for “populist” leaders and parties in the US and much of Europe is a lagged response to the disruptions of 2008 and the drawn-out Great Recession. One might infer from it a bias for hope that the current far-Right wave will subside… if “normal” growth resumes and/or if governments undertake more pre- and re-distribution. The bias for hope is all the stronger when one remembers that Mr Trump attracted around three million votes less than Hillary Clinton; and that, so far, the far-Right forces in Europe have come close to governmental power only when allied with conventional Center-Right parties.

The elite response to President Trump is of course very different from the mass response. Philip Stephens of the *Financial Times* reports on foreign elite reaction: “A first take from friendly foreign ministries is that Mr Trump’s economic nationalism threatens to fracture the open international trade system.” This is the climactic sign of “a rogue American president” who “will prove a force for dangerous instability.”

Here, without getting into Trumpian specifics, I make a partial defense of President Trump’s skepticism about the virtues of ever freer trade, ever more economic integration between countries. My bottom line is that “the open international trade system” does need adjustment.

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5 On the billionaire composition, *The Financial Times* reported (“Tillerson in line for $180m if confirmed”, 5 January 2017, p.4) that Rex Tillerson, Donald Trump’s secretary of state, will be given a payout worth about $180m to sever all financial ties to Exxon Mobil, because before his selection, the Exxon chairman and chief executive was in line to receive about 2 million shares in the oil group, worth about $182 m at today’s prices. Mr Tillerson might consider himself hard done by compared to Stephen Schwarzman, the chief executive of Blackstone Group, the leveraged buyout firm, appointed by Mr Trump to be head of the president’s business council. Schwarzman was paid $799 million in 2015. On lies and ‘alternative facts’, G. Grassegger and M. Krogerus, 2017, “The data that turned the world upside down”, *Motherboard*, 28 January, at [https://motherboard.vice.com/en_us/article/how-our-likes-helped-trump-win](https://motherboard.vice.com/en_us/article/how-our-likes-helped-trump-win) argue that they were not shoot-from-the-hip; they were carefully planned and micro-targeted on the basis of Big Data analysis of Facebook and other such data about individuals.


8 David Brooks of The New York Times warns that one should not take Trump’s policy gestures seriously. “When Trump issues a statement, it may look superficially like a policy statement, but it’s usually just a symbolic assault in some dominance-submission male rivalry game... His statements
to provide more “policy space” for national governments and regional blocs. “Cooperative internationalism” should be the goal, not the prevailing “integrative globalization” – which relies on multilateral institutions and American hegemony to glue the world together and prescribes that national governments should have no more influence over trade and other cross-border movements than US states or even EU states have over theirs.  

I. The elite globalization consensus

In this context globalization refers to the opening of domestic markets and the integration of global production via multinational corporations (MNCs). More broadly, it refers to movement in the world economy towards “one country”, or “deep (not shallow) integration”, where nation states have no more influence over flows of goods, services, capital, finance, ideas and people across borders than South Dakota or the other US states have across theirs. Ever since the 1980s leaders of western states – including shareholders and top executives of MNCs – have agreed that states, on their own and cooperating (in free trade agreements, and in inter-state organizations like the World Bank, IMF, World Trade Organization, European Union), should push for ever more globalization, more “market access” for their corporations, and less state “intervention” or “regulation” in markets.

Here is Martin Wolf of the Financial Times, one of the world’s most influential economic commentators:

“It cannot make sense to fragment the world economy more than it already is but rather to make the world economy work as if it were the United States, or at least the European Union… The failure of our world is not that there is too much globalization, but that there is too little. The potential for greater economic integration is barely tapped… Social democrats, classical liberals and democratic conservatives should unite to preserve and improve the liberal global economy against the enemies mustering both outside and inside the gates” (emphasis added).  

should probably be treated less like policy declarations and more like Snapchat. They exist to win attention at the moment, but then they disappear… The crucial question of the Trump administration could be: Who will fill the void left by a leader who is all façade?”  


Disclosure: I have a dog in this fight. I worked in the Trade Policy Division of the World Bank in the late 1980s. In the evenings and at weekends I worked on finishing my book, Governing the Market, Princeton University Press, 1990, 2004 – a project entirely separate from the Bank. But given my broad knowledge of East Asia the division asked me to write a substantial paper about how East Asian countries had gone about promoting exports. I agreed, but added that I would also have to discuss how they had gone about substituting imports, because export promotion and import substitution were like the two wings of the same bird. Emphatic no, was the response; import substitution could only be mentioned in negatives. Shortly after, I left the Bank for the more honest climate of the US Congress’ Office of Technology Assessment.  

See Wade, 2009, “Reflections: Robert Wade, interviewed by Alex Izurieta”, Development and Change, v.40, n.6, November, p.1153-1190. See also Wade, 1993, “Managing trade: Taiwan and South Kora as challenges to economics and political science”, Comparative Politics, 25, 2, January, p.147-168, which gives a more extended economic and political analysis of the trade regime of Taiwan and South Korea than in Governing the Market. Also, Wade, 2014, “Current thinking about global trade policy”, Economic and Political Weekly, XLIX, 6, February 8, p.18-21, gives an account of current thinking about global trade policy (especially in the context of the Sustainable Development Goals), by way of showing how most of UNCTAD (but not the division which produces the Trade and Development Report) has been captured by those who give top priority to “trade facilitation”, code for almost free trade.  

Here is Renarto Ruggiero, former head of the WTO:

“trade integration is not just a recipe for growth but also security and peace, as history has shown” (emphasis added).

Here is the WTO saying on its website: global integration under WTO and predecessor GATT supervision

“has been one of the greatest contributors to economic growth and the relief of poverty in mankind’s history” (emphasis added).

Here is the World Bank summarizing others’ research findings, with which it agrees:

“openness to international trade, based on largely neutral incentives, was the critical factor in East Asia’s rapid growth” (emphasis added). 11

The World Bank’s Structural Adjustment Loans over the 1980s carried more trade liberalization conditions than those in any other policy domain. The Bank treated trade liberalization as the queen of policies, not just one among many, saying that free trade policy will limit the amount of damage from other government interventions in the market. 12

The Financial Times peppers its editorials about trade protection with negatives like “mercantilist” and “populist”, and stresses that any one country benefits from adopting free trade policy even if others do not – because protection amounts to throwing rocks in your own harbor. Apparently the collective interest of any country and of the world at large always favors free trade, because free trade maximizes the size of the pie. Only self-seeking “vested interests” want protection in order to get more of the pie for themselves, at inevitable cost to society.

A big business voice comes from Percy Barnevik, when CEO of the Swedish-Swiss multinational Asea Brown Boveri (ABB):

“I would define globalization as the freedom of my group to invest where and as long as it wishes, to produce what it wishes, by buying and selling wherever it wishes... while putting up with as little labor laws and social convention constraints as possible.” 13

Finally, Bernard Arnault, in 2000, CEO of French luxury group LVMH and 10th richest person on Earth:

“Businesses, especially international ones, have ever greater resources, and in Europe they have acquired the ability to compete with states... Politicians’ real impact on the economic life of a country is more and more limited. Fortunately.” 14

14 B. Arnault, quoted in Serge Halimi, 2013, “Tyranny of the one per cent”, Le Monde Diplomatique (English), May 1.
These statements illustrate the tendency for globalization champions to attribute "all good things" to trade and investment integration, including (1) global poverty reduction on an unprecedented scale, (2) East Asia’s remarkable economic rise, and (3) global peace and security.

Though they assert causality, the statements are not intended to pass a test of evidence. Their job is to affirm identity: that the speaker or organization is a member of the global elite team which wants capital, goods and services to be able to move freely worldwide between locations and sectors, as the defining feature of desirable globalization, assuming that what is good for the team is good for humanity and the biosphere.

Implicitly or explicitly the claims downplay the value of "policy space" and the value of the solidarity obligations embedded in the idea of "nation", ignoring the employment point made by Keynes in the epigraph. The claims should be understood in the light of Daniel Kahneman’s observation, “Declarations of high confidence mainly tell you that an individual has constructed a coherent story in his mind, not necessarily that the story is true”.

II. Comparative advantage and free trade as the crown jewel of the neoclassical paradigm

Globalization champions draw comfort from neoclassical economic theory, which purports to give a rigorous and "general interest" justification for the policy of free trade in goods and services.\(^{15}\)

The argument today rests on basically the same theory of comparative advantage as David Ricardo proposed in 1817 – a theory which was static, timeless, abstract, elegant, and which today broadly retains those characteristics (with some theoretical qualifications to do with "increasing returns", which are treated as unimportant for practical policy in the real world). In the following two centuries the theory acquired the status of jewel in the crown of the increasingly dominant neoclassical paradigm.

As Paul Krugman quipped,

“If there were an Economist’s Creed, it would surely contain the affirmations, ‘I understand the Principle of Comparative Advantage’ and ‘I advocate Free Trade.”\(^{16}\)

Gregory Mankiw, author of the most widely used textbook in economics, declared,

“Although economists often disagree on questions of policy, they are united in their support of free trade. Moreover, the central argument for free trade has not changed much in the past two centuries… [E]conomists’ opposition to trade restrictions is still based largely on the principle of comparative advantage.”\(^{17}\)


Jagdish Bhagwati, celebrated trade economist at Columbia University, put the point more colorfully:

“Only Neanderthals among the economists now militate against free trade: unfortunately, they will never lack an audience but fortunately, they have little effect presently”.  

Finally, Douglas Irwin, historian of economic ideas:

“…one should recognize that free trade commands respect among economists largely because of its continuing theoretical attractiveness” (rooted in the theory of comparative advantage).

Surveys of economists’ opinions confirm that there is nothing that economists, especially American economists, agree about more than the virtues of free or almost free trade. For example, a survey of nearly 1,000 economists in five industrialized countries asked them to “generally agree”, “agree with provisos”, or “generally disagree” with 27 propositions. “Tariffs and import controls lower economic welfare” was the one that elicited most agreement. Seventy nine percent of the American economists and 57 percent of the whole sample said, “generally agree”.

III. The argument for free trade policy

The argument boils down to three propositions supporting the conclusion that the institution of free trade is ‘right’ for each country and the world.

1) Free trade leads to production specialization in activities in which the economy holds a “comparative or relative advantage” (not “absolute advantage”);
2) This pattern of production specialization yields maximum efficiency of resource allocation among the trading partners, and therefore maximum “welfare” for these trading countries;
3) Economists should recommend policy measures which will result in maximum efficiency (including free trade) and leave it to political choice as to how to distribute the resulting maximum income or consumption.

The basic idea is simple. People want to consume a wider mix than can be produced at home more cheaply than could be imported. Therefore, driven by relative costs, countries tend to export goods whose production makes intensive use of resources or factors (including land, labour, skilled labour, capital) which are abundant nationally, and import goods whose production requires resources scarce nationally. A country with trade barriers blocks this efficiency-enhancing mechanism and imposes higher costs of its consumption mix on its population (“puts rocks in its own harbor”). A country which lowers its trade barriers tends to raise its specialization of production, exports and employment in the resource abundant

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products, so the returns to the abundant resources tend to rise relative to the returns to the scarcer resources. Ergo, free trade is best for each country and the world, enabling maximum consumption from a given stock of resources.

The argument has more recently been fortified by the fall in “coordination costs” and “information costs” thanks to ICTs (information and communication technologies), as well as production changes that facilitate the unbundling of production into discrete tasks to be done in scattered locations.21 These developments enable a country to get better access to production, marketing and managerial knowledge than before, and so able to stretch its comparative advantage into the export of products previously out of reach.

In the event that imports of a set of products drive a country’s producers out of those products, this is all to the good, because the imports reveal that the products in which the country holds a comparative advantage have changed. Over time in any one economy, as wages and other costs rise, the economy should lose production and jobs in its relatively less productive industries to lower cost economies and gain them in its relatively more productive industries.

It is scarcely an exaggeration to say that comparative-advantage-driven free trade is the core mechanism by which modern mainstream economics explains the great question, how market capitalism generates human welfare. Beneficial global integration – moving towards “one economic country” – is the overarching narrative of the past several decades. See the earlier quotes from Ruggerio, Wolf, and the others, and the results of the survey of economists’ opinions.

So both specialists and public discourse writ large are confident that, first, the theory of comparative advantage is compelling as an explanation of production specialization and trade patterns; second, it is also compelling as the theoretical justification for the policy of free trade; and third, the empirical evidence is strong that trade liberalization raises growth rates, and that countries with freer trade have better economic performance than countries with less free trade.

On these grounds believers dismiss those who advocate some degree of trade management with the charge that they are willing to sacrifice the “general interest” (implicitly defined in terms of larger consumption, regardless of employment) in order to protect the interests of narrow interest groups (such as trade unions, or inefficient small and medium enterprises, which typically provide much employment).

IV. Free trade in question: the theory is not robust

At a high level of aggregation the theory of comparative advantage “works”, in the sense that global trade patterns are broadly in line with its predictions. Countries with abundant land and scarce skilled labor (Africa) tend to produce and export land-intensive products and import manufactured products, and countries with scarce land and abundant labour (East Asia) tend

to produce and export labour-intensive manufactured products and import land-intensive and skill-intensive products.\textsuperscript{22}

But this is not the end of the story. The theory’s broad consistency with trade patterns does not translate straightforwardly into the policy conclusion that free trade is best for each country and the world. The theory rests on a raft of assumptions so limiting of its domain of applicability as to make one wonder how it could have survived for so long as the crown jewel of economic theory. Here are some of them.\textsuperscript{23}

\textit{No externalities}

The theory assumes no externalities; in other words, assumes that prices reflect true economic value – including the economic cost of environmental damage and the economic gains of one company’s innovation for other companies. The theory is driven only by what is included in prices. A country with lax environmental standards will produce and export too much of some goods, because prices do not include environmental damage (deaths from ambient air pollution, for example); and countries with higher environmental standards will import too much relative to prices which do incorporate environmental damage. Less than free trade could benefit both sides. Similarly, free trade can lead to companies producing positive spillovers for other companies being wiped out by foreign competition, because their prices do not reflect their hidden value to others in the same country. Assuming no externalities of course limits all free market theory, not just comparative advantage theory.

\textit{Full employment is sustained}

The theory assumes full employment throughout, ignoring “transitional costs” of increased exposure to trade. By assuming full employment, it avoids facing a trade-off between the welfare gains from trade and the welfare losses from unemployment or precariatry employment. See Keynes’ epigraph. Implicitly, the theory sides with consumers, not with those whose income from labor (rather than capital) might be threatened by unrestrained imports. It is as though the “Walmart effect” of cheap imported consumer goods completely eclipses the employment losses associated with rising imports of manufactures (now amplified by post-2008 fiscal austerity).

The slowness of labour market “adjustment” to trade shocks – and recessions – than assumed in the globalization consensus has been measured by David Autor, David Dorn and Gordon Hanson. They study the effects of “the China shock” that began in the early 1990s in the form of a surge of manufactured exports to the US. They find that,

“Alongside the heralded consumer benefits of expanded trade are substantial adjustment costs and distribution consequences... \textit{Adjustment in local labor markets is remarkably slow, with wages and labor-force participation rates remaining depressed and unemployment rates remaining elevated for at least a full decade after the China shock commences... At the national level,}

\textsuperscript{22} Adrian Wood, 2017, “Variations in structural change around the world, 1985-2015: patterns, causes, and implications”.
employment has fallen in U.S. industries more exposed to import competition, as expected, but offsetting employment gains in other industries have yet to materialize.24

They calculate that about 55 percent of job losses in US manufacturing between 2000 and 2007 was caused by “rising exposure to Chinese import competition”, and 33 percent in the earlier period, 1990–2000.25

More evidence on the slowness of labour market adjustment comes from OECD figures on unemployment. As of 2015, eight years after the onset of the global financial crisis in 2007–08, some 44 million people were unemployed and wanting work in the OECD, 37 percent higher than the rate before 2007. The mainstream response prescribes fiscal austerity and job retraining. This is like saying – when 100 dogs are ushered into a room where 95 bones have been hidden and five emerge without a bone – “the five dogs have insufficient bone-finding skills and need more training”, rather than the Keynesian response, “there are insufficient bones for the number of dogs”.

Rising trade does not drive rising income inequality

The theory of comparative advantage accounts for aggregate (consumption) gains from trade and neglects the distributional consequences. To see the significance of this neglect, take an example from Ian Fletcher.26 A country lowers trade barriers, then imports more clothes and exports more aircraft, in line with its comparative advantage. Its GDP goes up. For each million dollars of production, clothing requires one white collar worker and nine blue collar workers, aircraft require three white collar workers and seven blue collar workers. So demand for white collar workers goes up, demand for blue collar workers goes down; and their wages move in the same direction. But most workers are blue collar. So most workers face a fall in their employment conditions, even as GDP goes up, thanks to free trade moving the economy closer into line with its comparative advantage. Dani Rodrik calculates that freeing up trade in the US shuffles five dollars to different groups for every one dollar of gain in GDP.27

Trade remains balanced

The theory assumes that trade remains balanced between the trade partners.28 The exchange rate is assumed to adjust so that relative cost differentials (due to differences between countries in their relative factor endowments) are translated into relative price differentials across borders, which lead profit-seeking producers to specialize in line with comparative advantage. If one country’s absolutely advantaged goods (think China) start to flood the markets of others (think Brazil), exchange rates will adjust sufficiently to ensure that before long comparative advantage dominates absolute advantage, and trade returns to

26 Ian Fletcher, 2017, Free Trade Doesn’t Work, p.109
28 “In trade theory, it is standard to assume that trade is balanced”. David Autor, David Dorn and Gordon Hanson, 2016, “The China shock: learning from labor market adjustment to large changes in trade”, NBER WP 21906, January, www.nber.org/papers/w21906, p.12.
balance. (Analytically, the adjustment could also occur through wage and price changes. But these are even more implausible in the modern world than exchange rate changes.)

Underlying the invocation of the balancing exchange rate is an assumption that international trade is basically barter – producers barter goods among themselves. Money is simply a neutral medium of exchange, to lower transactions costs. The assumption rationalizes the discipline separation between “international trade”, with its specialists, and “international finance”, with its specialists (in exchange rates, payments systems and capital markets), with little communication between the two.

The assumption that international trade is basically barter – and is balanced -- removes a fundamental dynamic of foreign exchange markets, a dynamic which explains why (1) a trade deficit need not produce an exchange rate devaluation, and (2) the exchange rate change need not restore balanced trade (no payments surpluses or deficits).

Exchange rates are determined not only by relative flows of goods and services, but also by, often speculative, capital flows unrelated to the financing of trade. Capital flows can and do drive exchange rates far from levels at which trade would balance. They are driven by herd behavior based on “guesses” about how certain “news” will affect the behavior of financial market participants and thereby the direction of asset price movements, on which the speculation builds.  

So countries with high inflation, high interest rates, and large current account deficits can experience currency appreciation rather than depreciation (needed to reduce current account deficits), as they become targets for carry trade “investors” (speculators) buying the domestic currency with money borrowed elsewhere at low interest rates.

The Trade and Development Report 2009, from the United Nations Conference on Trade and Development (UNCTAD), sums up:

“The most important lesson of the recent [2008] financial crisis is that financial markets do not ‘get the prices right’; they systematically overshoot or undershoot due to centralized information handling, which is quite different from the information collection of normal goods markets. In financial markets, nearly all participants react in a more or less uniform manner to the same set of ‘information’ or ‘news’, so that they wind or unwind their exposure to risk almost in unison. The currency market, in particular, causes results quite different from those envisaged by theory, such as an appreciation of the nominal exchange rate in countries that have high inflation rates over considerable periods of time.”

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Empirically, we know that, since the global liberalization of capital flows in the late 1970s, trade imbalances have persisted for long periods, together with high exchange rate volatility – which can have the effect of jerking economies, and people, around like yo-yos. Yet the theory of comparative advantage assumes that exchange rate adjustment will occur by enough to keep trade balanced.

**Short-term efficiency gains cause higher long-run growth**

The theory of comparative advantage tells how countries can reap efficiency gains by reallocating their *existing* resources by moving to freer trade. It is silent on the effects of the reallocation on long-run growth. If the reallocation results in the country moving out of activities rich in increasing returns to scale, or in technological linkages upstream and downstream, or in productivity gains due to physical proximity (an “industrial ecosystem”), it can harm growth.

Take Ricardo’s famous example, showing that both England and Portugal gain by moving towards free trade, resulting in England specializing in textiles and Portugal in wine, consumption of both being higher in both countries than in the absence of trade. That is the end of the comparative advantage story. But of course, now England has the textile industry, with its spillover links to the industry for steam engines and machine tools, which provides England with a platform to enter many other state-of-the-art sectors (stretching its comparative advantage). Portugal has wine, whose technology has not changed for hundreds of years and whose linkages to other sectors are thin. Good for England, bad for Portugal. And in fact, decades before Ricardo wrote, England and Portugal had switched to largely free trade in these products. Portugal’s promising textile industry was wiped out, and English (very mobile) capital, including Ricardo’s family’s, took control of Portugal’s vineyards as their owners went into debt with London banks.32 Portugal fell rapidly into the ranks of Europe’s poorest countries. Ricardo knew all this very well. He was an English gentleman, financier and Member of Parliament, and his theory of comparative advantage was a mask for advancing the emerging hegemon’s national interest against others.

V. Globalization in question: the economic evidence is ambiguous

Now to focus more directly on empirical evidence. As noted, during the past several decades globalization – including freer trade and capital mobility – has led to production specialization broadly in line with the theory of comparative advantage. Adrian Wood explains with reference to 1985-2015,

“...In skill-abundant developed countries, manufacturing became more skill-intensive. In land-scarce developing East Asia, labour-intensive manufacturing expanded, especially in China. In land-abundant developing regions, however, manufacturing stagnated or declined, while in land-scarce...”

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33 For an account of how western states today manage to maintain their dominant position in international economic organizations and steer these organizations to champion the great globalization consensus, see R. H. Wade, 2013, “The art of power maintenance: how western states keep the lead in global organizations”, *Challenge*, 56, 1, January-February, pp. 5-39.
South Asia manufacturing was held back by low literacy and weak infrastructure."34

However, this is a very broad empirical pattern of the factor-intensity of production and exports. The champions of free trade and more globalization make much grander and more normative claims about benefits far exceeding costs. They are inclined to overstate the benefits of free trade and globalization and underestimate the costs (even when confined to material benefits and costs, as in GDP, and especially when extended to employment).

We saw earlier how globalization champions — such as the WTO and the World Bank — tend to attribute “all good things” to rising levels of economic globalization. Recall the World Bank saying, “openness to international trade, based on largely neutral incentives, was the critical factor in East Asia’s rapid growth”. No ambiguity: “[L]argely neutral incentives… was the critical factor” (emphasis added). Nothing in the World Bank study comes close to validating this claim. Also, recall the WTO saying that “global integration… has been one of the greatest contributors to economic growth and the relief of poverty in mankind’s history”. Not to forget Renarto Ruggiero, former head of the WTO, declaring, “trade integration is not just a recipe for growth but also security and peace, as history has shown.”

Globalization champions tend to assume that — while globalization certainly brings aggregate benefits larger than costs — sectional interests adversely affected by international competition can successfully lobby the (often predatory) state for less globalization and more protection, at cost to the more diffuse (therefore less organizable ) “general or societal interest”. So globalization champions dismiss critics as not understanding the theory or as speaking for vested interests.35

By way of critique, we can start with Paul Krugman’s point: “The first thing you need to know is that almost everyone exaggerates the importance of trade policy.”36 This is a surprise coming from an economist who won the so-called Nobel Prize in Economics37 for his work on trade theory.

Dani Rodrik affirms that,

“Countries that have done well in the post-war period are those that have been able to formulate a domestic investment strategy to kick-start growth and those that have had the appropriate institutions to handle external shocks, not those that have relied on reduced barriers to trade and capital flows.”38

37 Why “so-called”? See Philip Mirowski, “The neoliberal erset Nobel Prize”, paper for presentation to conference on The Road from Mont Pelerin II, December 2015. Krugman was honored for showing how the well-known real-world phenomenon of increasing returns could be incorporated into formal trade models, which previously had been driven only by comparative advantage. Remarkable is that this incorporation happened so recently, given that since the early 20th century business leaders competed by building companies big enough to drive down costs through economies of scale and speed sufficiently to establish monopoly positions.
Francisco Rodriguez summarizes literature on the link between openness and growth, and finds that six major measures of openness are only weakly if at all correlated with growth (and the causality could go both ways). Also, most growth accelerations are not correlated with trade openings.  

Global growth has fallen steadily every decade since the 1960s – from over five percent in the 1960s to under three percent over the 2000s. Yet measures of economic integration between national economies show a fairly steady increase during these decades.

Many developing countries had their fastest post-World War II growth during their period of “import substitution” with managed trade – which the reigning elite consensus treats as always harmful to the national interest and the global interest. The consensus ignores the mechanism of managed trade in East Asia: the combination of strong encouragement to export certain products and strong encouragement to replace imports in certain other products, complemented by strong encouragement to invest and re-invest within the national territory. The result was that highly managed trade and capital flows (until the 1990s) helped to generate unusually fast and sustained growth, which sucked in rising volumes of imports in the less-protected sectors. The incentive regime restrained imports of (especially luxury) consumer goods while facilitating imports of advanced capital goods. Closely managed trade went with fast growth of trade.  

Whatever one concludes from these trends, it cannot be that trade liberalization tends to generate faster growth. At most, a step up in trade liberalization could be expected to produce a small, one-off increase in GDP, but there is no evidence that it reliably generates faster growth.

In short, ample evidence is at hand with which to challenge the great globalization consensus. Together with the critique of comparative advantage theory, the evidence suggests we should consider an alternative line of argument to the mainstream’s core proposition: namely, the aggregate costs of the present level of trade and capital integration outweigh benefits; but sectional interests – especially MNCs and elites vested to international capital – press states for always more openness against the “general interest” (defined not just in terms of consumption but also employment). See the Barnevik and Arnault quotes above. “Free trade agreements” like the North America Free Trade Agreement (NAFTA), and bilateral investment treaties (BITs), are a case in point.

Indeed, a defining moment in the death of “the nation” as an economic and social protection entity in the US came in 1992 with the signing of NAFTA, by which the US, Canada and Mexico took a giant step towards a single economic unit (from “shallow” to “deep integration”). US workers undertook mass protests against it, accurately forecasting large-scale job losses at home, to no avail. Barak Obama, before being elected US president in 2008, declared,

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"... entire cities have been devastated by trade pacts. I don’t think NAFTA has been good for America, and I never have."\(^{41}\)

NAFTA has brought large material gains to shareholders and top executives of US and Canadian MNCs and to their dependent Mexican counterparts. It has also stimulated FDI into Mexico, and manufactured exports from Mexico. But Mexico’s growth has been sluggish since the 1990s, behind most other countries in Latin America. Average real wages have fallen to the point where the average real wage in Mexico City is below Shanghai. In a recent poll in Mexico, only 20% of respondents believed that NAFTA had been good for Mexican consumers and businesses. A Mexican economist noted, "as a development strategy, it should have led to higher sustained growth, generated well-paid salaries and reduced the gap between Mexico and the United States. It has remained well below what was hoped for."

Of course, the fault is not all due to NAFTA. The government and the domestic private sector have failed to increase investment in R&D, regulations remain burdensome, and banks have lent less than their Latin American counterparts, leaving small and medium enterprises scrambling for credit.\(^{42}\)

VI. Globalization in question: the political evidence is ambiguous

The discussion of NAFTA takes us to the political effects of trade liberalization and capital mobility. The core point is that as the dominant private economic agents detached from their domestic markets, shareholders and top executives of MNCs lost the idea of belonging to a nation, the idea of a basic solidarity with their people, including employees – because their sales and profits no longer depended mostly on the domestic market. As Robert Blecker says,

"Although the US economy has been running large trade deficits that represent net losses of jobs in tradeables industries, US-based corporations have no such large deficits and have profited immensely from their foreign operations."\(^{43}\)

Western states under strong influence from business lobbies have been unwilling to protect the public from goods and services produced in cheap labor countries; justifying their unwillingness by faith that globalization – specifically, free trade and investment – will benefit “all (hard working) families” in the longer run. \(^{44}\)

A cartoon in the New York Times captures the point obliquely. A private jetplane lands at an airport, the red carpet is rolled out, down the gangplank walks the chief executive, who declares to his companion,


“Why should my taxes pay for roads and bridges?... When I don’t really use them?”

The cartoon illustrates that the rich now have so much income and wealth relative to the rest of the population that they can effectively live in orbits quite separate from those of the large majority, free from the downsides of globalization, and shape public policy to their liking on issues where their preferences diverge from those of the median voter. 45

Technology, particularly information and communication technology (ICT), probably accounts for a larger part of job losses in western manufacturing than imports from cheap labour sites. 46 But what matters for political effects is perception, and it is easier for those displaced from well-paying manufacturing jobs into low-wage service jobs or no jobs at all to blame foreigners and foreign countries for their hardship than to blame amorphous technology or inanimate robots.

Erosion of the idea of the nation as an economic solidarity entity (continuing since the 1980s) has gone with a second negative effect of globalization, namely, erosion of Center-left parties and movements all over the West. In the face of triumphant globalization ideology the Center-Left has long tried to compete with the Right by (a) adopting similar neoliberal economic policies of deregulation, liberalization, privatization, downplaying “the nation” an economic unit, unlike Trump, while (b) differentiating itself from the Right on “social” (or “moral”) issues like abortion, gender equality, and gay rights. The strategy has had limited success, especially since the financial crisis of 2007-08. These “social” issues are not compelling for electoral majorities, whereas core issues of employment, income protection, and social protection, are compelling – yet the Center-Left hardly differs from the well-financed low-tax Right on this terrain.

A third political effect of globalization is that, finding little comfort from the Center-Left, those who feel disadvantaged, even humiliated, as they see all around the wealthy few making huge fortunes and living luxuriously, and as they see the state giving help to minorities and immigrants financed with their taxes, grasp at comfort from people and parties who do speak the language of “the nation”, meaning “people like us”, and who promise to “support the people, not the elites”. Even when they see the billionaire leader appointing many billionaires to his cabinet. We noted earlier that this broad pattern is well-established in elections around the developed world in the wake of financial crises, not specific to the recent US election.

VII. Why have economists been so committed to free trade and globalization?

Why have the large majority of professional economists, especially in the academy and in western-dominated international organizations like the World Bank and IMF, been committed to free trade policy, downplaying theoretical and empirical weaknesses in order to remain so?


46 Separating out the causal weight of "globalization" and "technology" on employment, wages and working conditions is difficult because they are so interrelated. Offshoring of manufacturing raises the supply of people seeking employment in service sector jobs, and the spread of information technology makes it easier for companies to outsource many low-skill tasks – running the cafeteria, building maintenance, security, hotel reception – to low-wage subcontractors. See Eduardo Porter, 2017, “How domestic outsourcing hurts workers”, New York Times (International), 2 March, p. 10.
The teaching of economics in just about all universities of the western world, and in large parts of the developing world, socializes students into belief in the rightness of the “market” paradigm, and the more “rigorous” the training the more thoroughly socialized they become.47 The paradigm focuses on price competitiveness – free labor markets, flexible prices, free international trade – as the key to national competitiveness. It treats the market system as “self-organizing”, firms being essentially passive except for competing in price. It treats technology as external to production, as something which firms can buy on the market. It has no built-in process of innovation, no conception of an “industrial ecosystem” of firms competing and cooperating with each other.48 With all these things stripped out, the culture of the profession elevates belief in comparative advantage and free trade as the litmus test of competence to be an economist, as the earlier quote from Krugman suggests.

The market paradigm fits the larger “conservative” worldview, which sees the market as ‘natural’ and the realm of ‘freedom’, the state as artificial and the realm of coercion (often predatory coercion). This worldview is not just cognitive (“how the world works”), but intensely normative (“how the world should work”, “the right order of society”).49 In the market paradigm, the role of government is limited to “correcting market failures”; so state “interventions” in the market have to be carefully justified case by case. Many conservatives do accept the case for taxes to curb some “externalities”, such as pollution taxes to discourage private agents from polluting the environment. Some would even favor a carbon-emissions tax, but not emission regulations (as in Obama’s Clean Power Plan).50

In short, the consensus belief in free trade stems from the wider cognitive and normative belief – inculcated in economics education -- that the key to economic development lies in improving the scope of, and the institutions of, exchange. Government should strengthen property rights, foster the rule of law, and do what is necessary to align domestic prices with international prices (which means, free trade); and then, having put the right incentive structure in place, get out of the way, allowing the production structure to emerge as the result of profit-seeking investment decisions by private firms, domestic and foreign equally.

46 The Crash of 2008 and the ensuing Long Recession, and the experience of taking economics undergraduate courses which made no mention of these events, prompted three Manchester University students in 2011 to form the Post-Crash Economics Society to explore how to get a wider range of approaches into the curriculum. The movement has spread to 43 student campaigns in 15 countries. It is unified around the drive to shift economics from a public no-go area, occupied by a tiny minority of the population who speak the profession’s language; and around the drive to introduce more critical thinking, more evaluation, into exams – which currently are comprised mostly of multiple-choice questions to be answered on the basis of rote learning repeated under invigilation. The original three students have written a book, reviewed by Aditya Chakrabortty, 2017, “The Econocracy review – how three students caused a global crisis in economics”, The Guardian, 9 February, https://www.theguardian.com/books/2017/feb/09/the-econocracy-review-joe-earle-cahal-moran-zachward-perkins. See also A. Chakrabortty, 2013, “Mainstream economics is in denial: the world has changed”, Guardian, 28 October, at: http://www.theguardian.com/commentisfree/2013/oct/28/mainstream-economics-denial-world-changed
49 For a discipline so strongly normative, it is paradoxical that economics is an ethics-free zone, lacking relevant teaching, journals, newsletters, conferences or even professional codes (the latter until very recently, and then very partial ones). See G. DeMartino and D. McCloskey (eds.), 2016, The Oxford Handbook of Professional Economic Ethics, Oxford University Press; and E. Fullbrook, 2016, Narrative Fixation in Economics, World Economics Association Books.
The dominance of the market paradigm has hardly been challenged by the new phase of capitalism associated with the hyper-growth of the financial sector and turbo-charged by ICTs. Money funds and shareholders are pressing companies to give priority to success targets such as profits, dividends, and share prices; and to shift production to cheaper sites offshore, using investable funds at home to buy back shares (to boost share prices), as distinct from invest in R&D and training. Stock markets now tend to reward dividends and share buy-backs, not investment.\textsuperscript{51,52}

We see the impacts of the market paradigm in the fracturing of the European Union and Eurozone, gripped by the German and other northwest European countries’ conviction that their own economic success is due to their devotion to the market paradigm – flexible costs and prices, small budget deficits, low inflation, and private utilities. They urge the peripheral countries to follow in their footsteps, with fiscal austerity, labour market deregulation, and privatization. They miss the point that their own economic success comes from a very different production and employment system than exists in most of the periphery (Greece, Portugal and southern Italy, for example).\textsuperscript{53}

Both the contrast in economic performance within the European Union, and my critique of the globalization agenda, can be understood in terms of the much less favored ‘production’ paradigm. As Ricardo is the source of the market paradigm, Charles Babbage is the source of the production paradigm, in the form of his 1832 book, \textit{On the Economy of Machinery and Manufacturers}.\textsuperscript{54} His successors included Alfred Marshall, Allyn Young, Edith Penrose and George Richardson. It is a fair bet that most economics PhD students in Anglo universities have never heard of these people, let alone read them.\textsuperscript{55}

The production paradigm says that the core mechanism of how economies transform (or not) lies in the combination of production capabilities, business organization, and economic governance; or what Michael Best calls the “capability triad”.\textsuperscript{56} Economies with high capability pivot on a sufficient density of “entrepreneurial” firms which pull basic and applied R&D or production and marketing ideas from MNCs with branches in the economy in question, into innovation in products, processes, organizations, and marketing. These entrepreneurial firms do not emerge by themselves as a natural result of a well-working market. Their own internal capacity development requires a larger ecosystem of finance, skills and S&T partnerships; which depends on trust in social interactions, and therefore physical and/or cultural proximity. The government (national or regional) is the organizer, the steward of the infrastructure

\textsuperscript{52}For a discussion of how mainstream economists’ deep normative commitment to the market paradigm blinded them to the build-up of the causes of the Crash of 2008 and subsequent Great Recession, see R. H. Wade, 2016, “Economists’ ethics in the build-up to the Great Recession”, chapter 15 in G. DeMartino and D. McCloskey (eds.), \textit{The Oxford Handbook of Professional Economic Ethics}, p.268-292.
\textsuperscript{54}Babbage is credited with inventing the mechanical calculator and pushing for the high precision engineering necessary to build such machines, and being one of the first to infer general principles of effective production from close observation, which Ricardo-inspired economists did not do.
\textsuperscript{55}On the World Bank’s full-on embrace of the market paradigm starting in the 1980s, and move away from helping to boost borrowing countries’ production capabilities, including material infrastructure, see R. H. Wade, 2015, “Agenda change in western development organizations: from hard production to soft, timeless, placeless policy”, \textit{Lahore J. of Economics}, 20: SE, September, pp. 1-12.
\textsuperscript{56}This section draws on Michael Best, forthcoming (2017), \textit{How Growth Happens: The Economics You Were Never Taught}, Princeton University Press.
needed to support this ecosystem. “Macro stabilization” has a supporting, not driving role. Well-known examples are Boston’s Route 128, Silicon Valley, the Third Italy, and Germany’s mittelstand and similarly organized small and medium enterprises (less than 500 employees) in Austria, Denmark, Finland, Netherlands, Switzerland. The most spectacular transformation of all is Singapore, which, like Ireland and Malaysia, aggressively invited in MNCs and also, unlike those cases, carefully developed national capacity to pull more complex production and technology from corporate headquarters to local operating divisions in Singapore and from there to national firms.

From this point of view, the standard argument that: “it is OK, in terms of the national interest, for firms to offshore their ‘scale-up’ production provided ‘start-ups’ with their knowledge stay at home” is mistaken, because (a) innovation depends on building on experience of production, “learning while doing”, and (b) scale-ups are where the jobs are, not the start-ups.

Germany’s economic performance, and in particular its large trade surpluses, comes out of the production system codified in the production paradigm – combined with the longstanding agreement between government, business and labor to hold down wages and domestic demand.

Britain, on the other hand, is a sad case of the costs of following the market paradigm. British manufacturing (with exceptions) was slow (compared to northwest Europe) to introduce interchangeable parts, a culture of “continuous improvement”, profit-sharing reward incentives, team-based multi-skilled work organization, minimal separation between managers and workers, and heavy investment in vocational education. Britain remained stuck with piece-rate incentive systems, elaborate job classifications, sharp hierarchical separation between managers and workers, even as its manufacturing firms lost more and more market share. By way of compensation, the government undertook ad hoc industrial policy with subsidies, tax concessions and material infrastructure driven not by a national or regional strategy but by electoral calculation and intense lobbying in the shadows.

British-owned road car manufacturers were wiped out by foreign firms assembling in Britain – which imported two thirds of their parts and components in place of domestic production. The British government did little to encourage them to deepen their production in Britain, saying, in

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58 See Andrew Grove, 2010, “Andy Grove: how American can create jobs”, BloombergBusinessweek, July 1. https://www.bloomberg.com/news/articles/2010-07-01/andy-grove-how-america-can-create-jobs. Grove was co-founder and CEO of Intel. He says, “As happened with batteries, abandoning today’s ‘commodity’ manufacturing can lock you out of tomorrow’s emerging industry… Our fundamental economic belief, which we have elevated from a conviction based on observation to an unquestioned truisim, is that the free market is the best of all economic systems — the freer the better… [Evidence that this is not true] stares at us from the performance of several Asian countries in the past few decades. These countries seem to understand that job creation must be the No. 1 objective of state economic policy. The government plays a strategic role in setting the priorities and arraying the forces and organization necessary to achieve this goal. In a thorough study of the industrial development of East Asia, Robert Wade of the London School of Economics found that these economies turned in precedent-shattering economic performance over the ’70s and ’80s in large part because of the effective involvement of the government in targeting growth of manufacturing industries.”

the spirit of the market paradigm, “If they can get cheaper parts elsewhere, then they should do it”. The Japanese, Korean and Taiwanese governments would have had a more developmental mindset.

Britain’s low level of output per hour productivity relative to its peers (a bit over three quarters of the US, German and French levels, about the same as Italy, and stagnant since 2007) has been the subject of much research and anguished commentary. The conclusions typically point to: (1) poor infrastructure (rated by the OECD as second worst in the G7); (2) low investment in R&D (at 1.7 percent of GDP in private and public R&D, well below the OECD average, let alone the leaders on over 3 percent of GDP); and (3) a relatively unskilled population, which cannot drive productivity forward.60

Strangely overlooked as causes of Britain’s low productivity are: (4) British companies have for two centuries invested relatively heavily overseas compared to at home (the opposite in Germany, Japan, South Korea). (5) The economy has become dominated by finance, with its demands that British companies give priority to success targets such as profits, dividends, and share prices; and use investable funds at home to buy back shares so as to boost share prices. Finance has also had a backwash effect on the “real” economy, attracting highly skilled people to work in finance by offering remuneration many times that available elsewhere. (6) Britain’s captains of industry and its financial magnates are zealous champions of the market paradigm. So they rubbished the government’s green paper on industrial strategy published in early 2017, saying that the solution to lagging productivity is not “industrial strategy” but cuts in regulations – even though OECD measures show that Britain’s labor and product market regulation is low and about the same as in the US.61

Emphasising the costs of the last three points would challenge the core of the market paradigm in a way that emphasizing the first three does not. Meanwhile, all the attention is on the costs of Brexit, which will be small compared to the loss from low productivity.

VIII. Conclusion

It may be that,

“President Trump, animated by private motives as yet undisclosed, wants to bring about a Russian-American axis that would enfeeble Nato, destroy the European Union and dominate a continent reduced to politically dysfunctional national fragments… Operating under the ‘America First’ rubric, Donald Trump has instantly turned the US into a rogue state. Internationally agreed rules on trade, territories, refugees, climate and disarmament are, it seems, to be treated as no longer binding on America.”62

The problem is that branding Trump “populist” goes with knee-jerk condemnation of everything he favors. Here is Philip Stephens of the Financial Times: “No one should pretend, though, that the populists have the answers. Protectionism impoverishes everyone.”63 As in

61 Nicholas Oulton, 2017, “Productivity puzzle meets delusions of adequacy”, letter, Financial Times, February 8
all the Financial Times’ commentary, he leaves “protectionism” completely unbounded, his blanket condemnation inviting the reader to suppose it means something close to autarky – an obviously stupid trade regime.

I have used Trump’s skepticism about free trade as an excuse for questioning the crown jewel status of the theory of comparative advantage and the said-to-be-rigorously derived-and-empirically-well-supported policy of free trade as best for each country and for the world. The reigning belief that all countries should practice free or almost free trade, and that the purpose of “free trade agreements” and international organizations like the WTO is to move public policy towards freer trade – and deeper economic integration more generally – can be challenged on several grounds set out in sections IV–VI, not repeated here.

The standard response to these challenges is:

“Policy must target the problems directly, and not use protection. The trade-off between free trade and employment must be handled by more social protection and more skill training, while keeping (or moving to) free trade and deep integration. This is best for all.”

But what if these policy responses are barely forthcoming? Moneyed politics works strongly against them, as we see in the US’s threadbare social protection system.

The British government gives another example. Soon after Theresa May became the Prime Minister of the Conservative government in mid 2016 she declared to the Conservative Party conference,

“Our economy should work for everyone, but if your pay has stagnated for several years in a row and fixed items of spending keep going up, it doesn’t feel like it’s working for you.”

She was right. But her government inherited – and crucially, maintained – tax and benefit plans which have the opposite effect; which give substantial tax cuts to the relatively well-off, and give substantial benefits cuts to those of working age. As Martin Wolf says,

“The government has decided to give greater priority to… the better off than to the relatively worse off.”

In short, making a level playing field does not ensure that the players turn up to play. Creating effective institutions of exchange in conditions of free trade does not tilt the production-business organization-economic governance capability triad towards innovation and expansion of higher value-added activities. The government can play a crucial role in securing the latter, including by managing trade as part of a larger investment strategy. But first we have to dispense with the saturated scorn with which managed trade is dismissed as “protectionism”.

All inter-state agreements imply some sacrifice of national autonomy. Agreements on health, environment, human rights, refugees, development, tax evasion, minimum top marginal tax

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thresholds and the like, have a high potential for mutual gains between the signatory states; they should be encouraged in the spirit of “cooperative internationalism”. Liberalization agreements on trade, investment, capital mobility and other domains of economics and finance typically have far-reaching, more ambivalent effects on the structures of production, employment and income distribution in which national populations live. They express the spirit of “integrative globalization”, which encourages governments to improve the conditions for markets in their country, remove limits on cross-border economic flows, and let the production and employment structures develop as they will on the basis of private profit-seeking competition between domestic and foreign firms equally.

Free trade is the sensible rule of thumb most of the time in most sectors. It is sensible because the efficiency gains are often real, even if the theory of comparative advantage over-generalizes them; and it is a simpler rule for any state and for inter-state agreements than rules for managed trade. But the argument made here about production and employment, in the context of economic growth rather than static resource efficiency, suggests that inter-state agreements, including the rules of the WTO, should be revised to permit more government “leadership” and “followership” of the market – sometimes by leading the production structure into activities the private sector would not undertake on its own, sometimes by making bets on initiatives already underway in the private sector to assist those initiatives to scale up. This contrasts with the current situation, in which the WTO restricts the use of instruments relevant to developing countries’ efforts to upgrade the national production structure – including tariffs, non-tariff barriers, and direct industry subsidies – while allowing instruments relevant to advanced countries’ efforts to grow new activities on the world frontier, such as R&D subsidies. The WTO is, put crudely, an industrial upgrading device for advanced countries, an industrial downgrading device for developing countries. President Trump surely does not intend his skepticism of free trade to benefit developing countries, but it gives the potential for others to modify international rules towards more “policy space”.

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65 I take “cooperative internationalism” and “integrative globalization” from Dunkley, 2016, One World Mania.
President Trump and free trade
Jacques Sapir [Ecole des Hautes Études en Sciences Sociales, Paris and Moscow School of Economics]

President Donald Trump did not wait until he took office on January 20th, 2017 to start implementing part of his economic program, mainly through protectionist pressures and the calling into question of free trade agreements. Whether it is the Trans-Pacific Partnership agreement, the NAFTA (signed several decades ago with Mexico and Canada), or even a measure calling into question the authority of the WTO, it is a general offensive against the very principle of free trade that we are witnessing. The fact it comes from an administration supposed to be one of the most “pro-business” of recent years is in itself raising a lot of questions. Could the so-called “Trumponomics” surprise us? It is important to understand how this kind of protectionist turn could merge with other projects and above all those concerning infrastructure that were prominent in the then candidate Trump’s campaign.¹ What lays in store for the coming months, and how could it shape the future of global trade? These major questions are now on the agenda of all important developed nations.

A paradigm shift?

It is quite significant that free trade is being challenged, here and now, by the United States. Usually challenges come from nations of the South and from leftist or populist leaders. For nearly forty years, the United States had been the driving force in most free trade treaties. This trend was obvious since the XIth century, and quite prominent in the early Bretton-Woods years. Of course these proposals were well received within the framework of the European Union which developed a notorious love affair with free trade. This organization shared with the United States the belief that free trade was the way of the future. We have witnessed how the EU, through the European Parliament, gave its blessing to the CETA. This vision, moreover, was rooted in a very ideological conception of the virtues of free trade, supposed to bring peace, or at least the end of conflicts. But the last twenty years have not been encouraging for free-trade advocates. Conflicts were not eliminated and the progress of free trade stopped with the crisis of 2008–2010. The Doha Round has been a resounding failure. This could explain why the turning point taken by the United States under the direction of President Donald Trump, however spectacular it may be, is less astonishing than one might have thought.


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Globalization is not, and never was, “happy” whatever various ideologues said. The idea that “sweet commerce”, was to be substituted for warlike conflicts, was much propagated. But, in truth, it was only a myth. Still, the warship preceded the merchant ship. The dominant powers have constantly used their strength to open up by force markets and modify the terms of trade as they see fit. The globalization that we have witnessed for nearly 40 years has been in combination with financial globalization, which has taken place with the unraveling of the system inherited from the Bretton Woods agreements in 1973. We are seeing today the result: a generalized march to regression, both economic and social, which strikes first the so-called “rich” countries but also those designated as “emerging” countries. It has led to the overexploitation of natural resources, plunging more than one and a half billion human beings into ecological crises that are getting worse every day. It has caused the destruction of social ties in a large number of countries, and there are also countless masses in the specter of the war of all against all, to the shock of an exaggerated individualism that suggests other regressions.2

The great reversal

At the root of this reversal we see the decline in incomes of the lower middle classes and the working class. And this drop is largely due to globalization.3 The gap between the highest 1% and the lowest 90% has greatly increased since the 1980s as shown in Thomas Piketty’s work.4 This discontinuation was confirmed by another study dating from 2015.5 This discrepancy is also reflected in the drop-off between the rate of increase in labor productivity and the rate of hourly wages. While the two curves appear almost parallel between 1946 and 1973, which implies that productivity gains have also benefited wage earners and capitalists alike, it is no longer the case after 1973. Since then, wages have increased significantly more slowly than labor productivity, implying that productivity gains have now mainly benefited business and shareholder profits. This situation worsened in the 1990s, obviously as a result of globalization and open borders.6 This trend, already perceptible before the 2007–2010 crisis,7 was not reversed by the implementation on anti-crisis policies, to the contrary. This had been one of the major failing of the Obama administration, one that fostered anger among the middle-class and would explain Donald Trump success in the Presidential race. The attack against NAFTA is here both symbolical and quite accurate. NAFTA was (and still is) a quite typical agreement that was thought to help regional integration. It turned out to be a mass-destruction weapon, as far workers incomes are concerned, both in the United States and in Mexico. A recent paper by the director of the CEPR, Mark Weisbrot, clearly establishes NAFTA’s cost for Mexico.8

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In the United States, this evolution was psychologically fundamental, because it meant the “end” of the American dream for a vast majority of the population. This was marked by the very clear difference between the rates of change in average income, which continued to rise, and the median income. But the United States was not the only country where this situation manifested itself. It should be noted that it is also present in Great Britain, which is not politically without consequences if we look to the BREXIT in this context.

Whatever figures we are given about the sharp drop in the unemployment rate under President Obama, the awful truth is that the labor market is still very weak by many measures. The employment rate for workers aging 25–54 is still 2.0% points below the pre-recession level and 4.0% below the 2000 level. This corresponds to a mass of around 2.5 to 5.0 million missing jobs. Such figures explain clearly the angriness in the lower middle-class, and angriness that was instrumental in Donald Trump’s victory. It is therefore clear that free trade has not had the beneficial consequences predicted by mainstream economic theory on the economies and on the workers who live in these economies.

Is free trade the future of humanity?

It is true that the various subsidies and barriers to competition, which are the essence of protectionist policies, have a very bad press today. On both the right and the liberal left, they are taboo. The former French Minister of Economy and now candidate to the French presidential election, M. Emmanuel Macron, speaks loudly of “freeing” the French economy, which is equivalent to saying that we need more competition. The law attached to his name and that he pushed forward when he was minister was about de-regulating some activities. This was done, but results have so far been less than successful. It should also be pointed out that Mr. Macron distinguished himself by his support for the very contested treaty between the European Union and Canada, the so-called CETA treaty, a treaty that has been adopted very recently by the European parliament after what could only be described as a nasty joke of a debate. The same viewpoints are expressed by the European Commission, which has reacted vigorously to the statements of Donald Trump. There is obviously a point of consensus here. But this point is built on self-proclaimed evidence.

Prescriptive discourses that seek to extend free trade are based on extremely questionable normative bases. The assumption that competition is ever and everywhere beneficial for all is neither theoretically nor in practice grounded. The first demonstration against this belief in competition came from agricultural economics, through the Hog-cycle theory. But as shown by a careful reading of the founding article written by Mordecai Ezekiel in 1938, we are faced with a problem that goes far beyond the phenomena that allowed its initial identification, the fluctuation of agricultural prices. The analysis of the conditions giving rise to the cobweb
mechanism shows a major flaw in the theory of competitive equilibrium. This analysis contains a radical criticism of the normative role accorded to so-called “pure and perfect” competition. It leads to restoring legitimacy to measures restricting the exercise of competition, whether subsidies or limits on entry into certain markets through the presence of quotas or customs duties. It is not without reason that the compilers of an extremely important work on the theory of economic cycles introduced Ezekiel's article into the collection of texts they edited.\textsuperscript{15}

Indeed, the term “cobweb” was proposed by Nicholas Kaldor. It should be emphasized that Kaldor was thinking that it was necessary and even mandatory to extract the dynamics of the cobweb from its unique agricultural environment, since we are faced with a general problem affecting the theory of competitive equilibrium as soon as one is in presence of a situation where “... the adjustments are completely discontinuous”.\textsuperscript{16} The late Wassili Leontief made quite a similar reflection at the same time. Leontief demonstrated the impossibility of determining a spontaneous mechanism of price and production equilibrium by “pure” competition as soon as supply and demand curves did not correspond precisely to the specifications of the Leon Walras model.\textsuperscript{17} Equilibrium then appears as a special case and not as a general case, which was confirmed by more recent work by Sonnensheim and Mantel.\textsuperscript{18}

Moreover, if the objective is to avoid or to limit fluctuations, because these can have short- and long-term negative effects on both producers and applicants (in particular for the investment process),\textsuperscript{19} the conclusion that can be drawn is that measures suspending competition such as subsidies, quotas or customs duties become useful and legitimate. Gilbert Abraham-Frois and Edmond Berrebi have shown that the introduction of realistic clauses into reasoning (for example, by accepting that the economic agent has a choice between not two but three options) leads to the generalization of situations of instability as long as competition is maintained.\textsuperscript{20} Yet while theoretical work since the early 1970s confirms and extends Ezekiel's conclusions about a radical critique of the normative scope of the competitive equilibrium model, one tends to forget the general lesson of his work.

**Donald Trump’s twitter diplomacy**

Donald Trump’s recent statements, as well as pressures he exerted on large industrial groups with twitter messages, though they may seem somewhat exotic, have revived the question of modern forms of protectionism. In fact, this debate has already taken place. In the 1930s, as

\textsuperscript{15} Readings in Business Cycle Theory - selected by a committee of The AMERICAN ECONOMIC ASSOCIATION, Londres, George Allen and Unwin, 1950, pp. 422-442.


a result of the great economic crisis, a number of economists shifted from traditional “free trade” positions to a more protectionist one. John Maynard Keynes was one of those, and certainly the one who exerted the most considerable influence. The text of J.M. Keynes on the necessity of national self-sufficiency was published in June 1933 in the Yale Review. It’s quite an important paper, as Keynes was in the early 1920s a long-standing supporter of free trade.

Today, as in 1933, the reasons for doubting the value of Free Trade are accumulating. World Bank experts brutally revised downwards their estimates of “gains” from international trade liberalization, even though they were computed without any reference to possible costs. A UNCTAD study showed a few years ago that the WTO “Doha Round” could cost developing countries up to $60 billion when it would bring them only $16 billion. Far from fostering development, the WTO could well have contributed to global poverty. Even foreign direct investment, long regarded as the miracle solution to development, is now under attack. In many countries competition to attract direct foreign investment as clearly negative effects in the social and environmental fields. Very clearly, this is not taken into account in Donald Trump’s “America First” logic and was not even present in his reasoning. But its overall consequences for the protection of the environment could prove to be very positive indeed, which, it must be emphasized, would be an amusing paradox.

How has free trade been imposed on people’s minds?

The opening of global trade since the 1970s and 1980s had notable effects all across the world. Publications, including those of Dollar in 1992, Ben-David in 1993, Sachs and Warner in 1995, and Edwards in 1998, have sought to link international trade and growth. These years were marked by extremely important changes. There were two major phenomena: the end of Eastern Europe, in the sense of the Council of Mutual Economic Aid (CMEA), and the end of the USSR. In both cases, it was found that the trade flows as recorded have grown strongly. But the mere passage from what was an (CMEA), and the end of the USSR. In both cases, it was found that the trade flows as recorded have grown strongly. But the mere passage from what was an “internal trade” to an “international trade” resulted in a sharp rise in the latter. Part of the growth in world trade can

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22 For a precise analysis: Ackerman F., The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections, Global Development and Environment Institute, Tufts University, WP n° 05-01. See also “Doha Round and Developing Countries: Will the Doha deal do more harm than good” RIS Policy Brief, n°22, April 2006, New Delhi.
thus be attributed to a “revelation” effect of trade occurring within other statistical frameworks and not to an actual “creation” of trade. Specialists, the same who intone the credo of globalization, only very rarely mention this problem.

A second cause is subtler but no less important. The increase in international trade flows has been linked to the evolution of these economies during the early years of their transition. In the case of the USSR, for example, a large part of the production of aluminum and steel did not find markets within the economy, due to the decline in manufacturing activity. The export of this surplus was immediate, whether it was legal or illegal. Similarly, there has been a phenomenon of substitution of imported products for local production, which has been favored by the sharp exchange rate developments. In this respect, the extremely high figures of international trade in 1994–1997 seem to have been the product of a statistical illusion. It is these figures, recorded over four years that have largely conditioned our vision of growth as linked to international trade. This shows the need to look again to the issue. Were not mainstream economist victims of the old mercantilist fallacy?

**Holding the free trade orthodoxy at bay**

Various attempts have been made to find a positive correlation between trade and growth. In general, the tests performed give results that are at least very ambiguous. It can be deduced that for some countries openness has had positive results, but not for others. Economic success depends more on the quality of the macroeconomic measures than on the openness. Indeed, countries that have associated protectionist policies with good macroeconomic policies are experiencing growth rates that are much higher than those of the more open countries, which invalidates the primacy of openness. This brings us back to the problem of development, which turns out to be far more complex than what the proponents of generalized free trade are saying. The work of Alice Amsden, Robert Wade and also those regrouped by Helleiner show that in the case of developing countries the choice of protectionism, combined with genuine national policies of development and industrialization have paid off. Growth rates were far above those of countries that did not made the same choice. Dani Rodrik emphasized the fact that the fastest growing Asian countries had systematically violated the rules of globalization, established and codified by the World Bank and the IMF.

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31 See Ben-David D., “Equalizing Exchange: Trade Liberalization and Income Convergencen”, op. cit.

http://www.project-syndicate.org/commentary/rodrik7
This brings us back to the question of national policies and the problems of the developing state that have re-emerged in the debate over the last few years. This issue is really at the heart of the industrial revival of Asia. In fact, it is these national policies that are the real critical variables for growth and development, not the existence or otherwise of measures to liberalize international trade. But to admit this is to reconsider the role of the State in economic policies and the role of nationalism as an ideology associated with development. Here one touches on powerful taboos of mainstream thought in economics as well as in politics. It looks like free trade ideologues have been moved by their horror of the State and played games with theory, completely disregarding historical experience. And, to their horror, now the developmental State theory could well be politically vindicated by changes President Trump is introducing. This is not to say that Donald Trump is a supporter of the developmental State. He probably even ignores the term and the history of the phenomenon. But by challenging the free trade orthodoxy, he opens a new window of opportunity for policies aiming at creating strong developmental states.

**A return to reason**

It is mainstream wisdom that over the past three decades, international trade has largely driven economic development. This thesis has been popularized by some economists, but on closer inspection appears false. In 2008 and 2009, international trade declined in proportion to the decline in production in the major industrialized countries. Trade, therefore, does not create value by itself, an old error of mercantilists that reappears in the form of the belief in growth driven only by trade. On the contrary, growth in the main countries draws trade. It is therefore necessary to ask whether we have not been faced with an error, at least of an illusion, due to statistics. Indeed, the phenomenon of growth, whether that of gross domestic product (GDP) or that of international trade, could very well be overestimated for various reasons. The possibility of a measurement error may call into question the agreed idea of a direct and mechanical link between the development of international trade and global growth. This requires rethinking the causal links between growth and trade. From that point on, it is the entire ideology that has surrounded the globalization that will be called into question.

The rupture of this cognitive veil then makes it possible to ask other questions. To what extent is globalization responsible for the destruction of the natural environment, which has been accelerating since the late 1980s? This destruction is not simply linked to the multiplication of long-distance transport, to the competition between the West European worker and the Asian worker over the very different social systems that govern their work. However, it is now known that this has had profoundly destabilizing effects on the internal distribution of income. Companies have been relieved of the constraint that, in a relatively closed economy, their wages (which are therefore costs to them) are also decisive for their markets. This emancipation stems from the submission of local economic logics to global ones which can result in significant ecological damage.

The Trans-Pacific Partnership (TPP) agreement, a treaty cancelled by President Trump, is an obvious example of the common misrepresentation of trade agreements in the mainstream media. A document coming from the Peterson Institute was putting gains for all participants at

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The International Trade Commission criticized figures coming from the Peterson Institute. While the Peterson Institute analysis projected an increase in national income of 0.5% by 2030, which is not really spectacular, the ITC report projected an increase that actually was less than half this size. The ITC report was giving a gain of 0.23% by 2032. To understand what it means we have to understand an increment to the annual growth rate of 0.015%. The ITC projection implies then that with the TPP in operation the economy would have a projected gain amounting to roughly one and a half month’s GDP. It means then that growth on January 1, 2032 would be at the same level it would be in February 15th 2032 without the TPP! But the ITC also was using a CGE model for its computation in spite of considerable criticism against this kind of model. Actually, in other cases, ITC projections have been found seriously overstating growth and seriously off the mark. This has been found in the ITC evaluation of the US-Korea treaty (or KORUS). The ITC evaluation failed also to pick-up the large increase in the trade deficit and failed also to identify what could be the gaining and the losing sectors. The ITC model explicitly ruled out the various ways in which a trade agreement could lead to negative economic outcomes. This is why it is wrong to view the projections from the ITC as a comprehensive or operational assessment of the impact of the TPP. The excluded factors noted above would be difficult to model and the ITC did not try to introduce them into its model. The actual history of divergence between ITC projections of the impact of trade agreements and actual outcomes suggests then that the impact of factors not included in the model is substantially larger than the factors that ITC has incorporated into its analysis. A more sober and realistic evaluation would show that the TPP short and long-term influence would be unfavorable to the US economy and generally speaking to all countries involved in the TPP.

Hence, Donald Trump cancellation of the agreement probably salved workers in related countries, even if it was not the main driver for his action.

Economy and politics

In fact, globalization is synonymous with growth only when it can be based on a national development project, often articulated to a nationalist ideology. Merchant globalization only yields results if one does not play its game but while others do. The case of China is exemplary here, because it is through the combination of a National policy and the openness of development over the last 25 years. But even in this case, the rise of social inequalities and ecological destruction makes the continuation of this model problematic. This is particularly

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true in the Far East, with other examples like Taiwan and Korea, but can also be seen in Russia since 1999. Actually, the very process of emergence of a multi-polar world is rooted in the birth or re-birth of powerful developmental states that are clashing with equally powerful multinational corporations. Trump’s economic policy is an attempt, even if sometimes clumsy and plagued by inconsistencies, to adapt to this new situation.

Thus, far from leading to the overcoming of the nation, globalization is proving to be the new framework for the expression of national policies that generate either domination and destruction of national cadres for the benefit of stronger nations or phenomenal reactions and national development.44

Basically, the idea that we would have from the end of the “short 20th century”45 regained a tendency to integration by trade thus proves to be a myth. This was clearly shown by Paul Bairoch and Richard Kozul-Wright in the systematic study of these flows, which was carried out in 1996 for the United Nations Conference on Trade and Development (UNCTAD).46 There has never been a “golden age” of globalization, which would have ended with World War I and which would have been followed by a long period of decline, before experiencing a revival since the 1970s. It is indeed the whole idea of a march towards the “global village” which is deeply questioned. This debate has continued in the recent period and its results have been the same. Let us keep, however, for the moment, the image that is provided to us by Rodrik and Rodriguez.47 The push towards greater openness was not favorable to as many people as possible.48 It is then of the utmost importance to debunk the fallacy of free trade working for the poor. It never did and never will.

Requiem for free trade?

Economically, free trade is not the best solution and carries risks of crises and increases in inequalities that are considerable. It puts different territories in competition, not on the basis of the human activities deployed in them, but on that of social and fiscal choices themselves very debatable.49 Trade liberalization has not benefited the poorest countries, as shown by the most recent studies. A comparison of benefits and costs, particularly with regard to the collapse of public investment capacity in health and education following the collapse of fiscal resources, suggests that the balance is negative.

Politically, free trade is dangerous. It is an attack on democracy and the freedom to choose one's social and economic institutions. By promoting the weakening of state structures, it encourages the rise of communitarianism and cross-border fanaticism, such as Jihadism. Far from being a promise of peace, economic internationalism actually leads us to disaster and to

war. The destruction of nation-states in Middle-East, like Iraq, or the attempt to do the same in Syria, whatever criticisms can be made of these states and their leaders (and they are many) led only to a bloody chaos.

Morally, free trade is clearly indefensible. It has no other shores than that of the reduction of all social life to commodity. It establishes as a moral value the social obscenity of the new globalized “class of leisure.” The future is thus protectionism. But it is to be understood that protectionism is not autarky. It will first impose itself as a means of avoiding the social and ecological dumping of certain countries as we can see with policies developed inside the EU. It will then take the form of a coherent industrial policy in which the aim will be to stimulate the development of sectors with a strategic role in a development project. This will lead to the redefinition of a global economic policy that may include the regulation of capital flows, in order to rediscover the instruments of economic, political and social sovereignty. The forms of the policy of the future remain to be found and this is a general challenge for all populist leaders who come to power in the world. But its general meaning, however, is not very doubtful.

As we said before, it is an interesting, but rather paradoxical point, that free trade is challenged by Trump who is considered the most pro-business and also the most indifferent to ecological concerns of any President for many years. Beyond the questionable political style of Donald Trump, and its questionable policies too, let us admit that his project is part of the great reversal that I had predicted a few years ago. We do not yet know whether Donald Trump will succeed in articulating a genuine policy of re-industrialising his country, a policy that would benefit the largest number of people. We can have serious doubts on that point. At the same time, it is quite obvious that part of the hate he is inspiring right now is coming from his opposition to the “globalist” and free-trade orthodoxy. His administration is already under siege. And the violence of his opponents tells us a lot about what is at stake. But its policy takes into account, unlike what can be seen in the European Union that, for now, the era of free trade is over.

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U.S. private capital accumulation and Trump’s economic program
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Introduction: what do capitalists actually do, anyway?

In its purest form, capitalism is supposed to be an investment-led economic and social system. The owners of private firms invest in expanding their operations, advancing funds to pay for structures, equipment, and materials, as well as initial wages for their employees. This investment, undertaken in expectation of generating a sufficient profit in the future, starts a cycle of income and expenditure that supports a multiplied level of economic activity throughout the economy. Workers are hired to staff these growing businesses, they produce and get paid, and then they spend their incomes on consumption (“spending what they get,” in the famous Kaleckian adage). That spending in turn creates additional sales opportunities that motivate further investment and expansion by investing firms. Even though workers are the ones actually producing incremental value-added in this process, they nevertheless depend on the capitalists’ willingness to push the “go” button: keeping the machine running with ongoing injections of new investment. Capitalists, in turn, depend on the stimulus provided by their collective actions to underpin a sufficient level of overall demand to ratify and realize their business plans: they “get what they spend”. Their capacity to initiate (or not initiate) the whole process gives investing capitalists enormous economic, political, and social power: over workers, who would be economically stranded without the initial stimulus from investment, and over governments (of all stripes) who understand well that the whole system rises or falls with the animal spirits of the investing class. Even in the more complex setting of a modern, mixed capitalist economy (with a significant public sector, foreign linkages, and finance), private business accumulation is undoubtedly the leading engine of capitalist growth and development; the ups and downs of business investment are more closely correlated with the momentum of the overall economy, than any other component of GDP. Investment, in Jorgenson’s (2005) words, “is the most important source of economic growth in the G7 nations” (p. 806). Strong investment is also typically associated with other positive outcomes including productivity growth, stronger innovation and structural change, enhanced international competitiveness, and rising wages (Waller and Logan, 2008).¹

Ironically, heterodox thinkers tend to be more cognizant of the leading role of business investment in driving economic development under capitalism than neoclassical economists – who (in theoretical models, at least) treat investment as a generally passive outcome of the

¹ Delong and Summers (1991) argue that machinery and equipment investment is especially correlated with broader economic performance.

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clearing of a market for capital (whether defined as real assets or loanable funds), endowed thanks to the autonomous preferences of savers. In contrast, heterodox writers focus on the autonomy of investment decisions, the range of motivations capitalists consider, the economic independence of investment expenditure (which, in a monetary, demand-constrained system, determines savings, rather than the other way around), and the power relationships and social factors which create the context for profit-driven investment decisions. Modern heterodox economists (such as Graziani, 2003) integrate monetary processes into this story, to explain how the initial willingness of capitalists to invest also leads the creation of credit as well as real production.

However it is explained in economic theory, the fundamentally productive, entrepreneurial role of capitalist investment is essential to the political and social legitimacy of the elites who lead the system – and who own and profit from the bulk of its wealth. Indeed, the thriftiness of the early capitalists, and their willingness to plough their savings back into growth, accumulation, and innovation, is precisely what endeared this dynamic new class to the classical economists. Smith, Ricardo, and their colleagues celebrated the productive leadership of capitalists, and developed policy recommendations which consistently favour ed that class accordingly: everything from tariff reduction on imported food (to reduce real wage bills) to the expansive enshrinement of property rights. Anything that granted more money and certainty to productive, ambitious investors would be good for the economy, and the rest of society would benefit accordingly. That core idea (albeit perverted by the analytical twists and inconsistencies of neoclassical theory) lives on in the “trickle-down” policy vision which defined neoliberalism from the outset. Neoliberalism was a response to the deceleration of private accumulation after the long postwar boom. That slowdown was due in part to constraints on business imposed by workers, governments, and liberation movements in the former colonies. The goal of neoliberalism was to restore the all-round power and legitimacy of private business; to free companies from the inconveniences of intrusive regulations, pushy unions, and taxes; and to pro-actively create and expand new investment opportunities (through globalization, privatization, and market-creation). The social hardship associated with these policies was always justified on grounds that they would unleash the dynamic impulses of accumulation, to the benefit of workers and others who depend on business investment to play this productive, leading role.

Neoliberalism certainly succeeded in strengthening profit conditions, which have improved substantially in the U.S. and most other developed economies since the 1980s. But the second part of the equation – a restoration of capital accumulation as the driving force of growth and prosperity, with widespread benefits that spread through the rest of society – was never realized. Perhaps it was never actually part of the plan: it can be argued convincingly that neoliberalism has been more interested in re-dividing the pie than growing it, and more interested in controlling growth than unleashing it. But the continued sluggishness of real accumulation (and hence of GDP, employment, and incomes) is a glaring problem for neoliberal legitimacy. Profits have been restored, incomes are flowing more strongly to corporations and their owners, but business investment has weakened under neoliberalism, not strengthened. Measured as a share of GDP, net fixed capital investment in OECD countries (after depreciation) has declined from an average of 12 percent in the 1970s, to just 4 percent since 2010. The U.S. experience has been even worse (as documented below).

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2 Junankar (2002) provides a useful summary of the core logic of neoclassical investment theory, and its varied empirical applications.

3 Author’s calculations from OECD National Accounts Statistics; unweighted average.
Years of stagnation and austerity since the global financial crisis have exacerbated the problem, politically as well as economically. The contrast between fat bonuses, strong profits, and luxury consumption at the top, and the continued stagnation of work and living standards for most of society, must inevitably provoke a crisis of legitimacy. After all, it is supposed to be their willingness and capacity to plough economic surplus back into accumulation and innovation that is the raison d'être of the capitalist class, and the core engine that drives the system forward. If the wealthy are capturing a larger surplus than ever, but consuming or wasting it rather than reinvesting it, the political stability of the system, in addition to its economic vitality, will be threatened. As Ruccio (2017) puts it succinctly, “The machine is broken.”

This makes it all the more ironic that the politician who most successfully mobilized the anger and alienation of the workers and communities who have suffered from stagnation, now promises to repair the top-down logic of the system with more of the same, painful medicine. Donald Trump has certainly placed the failure of business investment at the center of his policy program. Proposals for facilitating, encouraging, and even browbeating business to invest more in America constitute a running and consistent theme throughout his plan. But his ideas for “making America great again” through restored business leadership and investment are not novel at all: he is repeating exactly the same script that has guided neoliberal policy for over three decades – and which has manifestly failed to revitalize private capital investment. Trump’s proposals may elicit spurts of new business activity in certain sectors of the U.S. economy – led by petroleum companies taking advantage of his aggressive deregulation of environmental protections, and military contractors lining up for a share of coming defense spending. But that will not restore the general vibrancy of private capital accumulation, growth, and employment on any sustained basis. Trump’s program, like other incarnations of trickle-down policy, does not tackle the deeper structural problems which explain the continuing slowdown in business activity, despite enhanced business power and profitability.

This article will first describe and review the deceleration in U.S. business investment over recent decades, and discuss its consequences. It will summarize the major determinants of investment typically emphasized by economists. Then it will consider the various elements in Trump’s policy platform, investigating the likely effect of each measure (and the program in its entirety) on the pace of capital accumulation. The conclusion will return to the deeper structural problems arising from the economy’s broad reliance on profit-seeking investment as the driver of growth and job-creation – structural problems which Trump’s program does not begin to address.

The deceleration of U.S. capital accumulation

Empirical evidence confirms that the vitality of U.S. business investment diminished beginning in the late 1970s – and moreover that investment performance has gotten worse, not better, since then. Previous neoliberal policies aimed at restoring profitability, and reducing regulatory and other constraints on business activity, have not helped business investment, and have likely hurt it. This casts immediate doubt on the effectiveness of Trump’s plan to do even more of the same.

4 My estimations suggest that less than one-tenth of the surplus generated in the U.S. economy is reinvested in new capital accumulation; most of the rest is consumed. See Stanford (2015), p.78.
Figure 1 charts the average annual rate of growth in gross non-residential business fixed capital spending (including structures, machinery and equipment, and intellectual property assets) through the major economic cycles of the postwar era. The figure indicates the average annual growth of real non-residential investment expenditure (adjusted for changes in the prices of capital assets) from cycle peak to peak. During the first three decades after the Second World War, investment grew robustly: at a sustained real rate of around 6 percent per year. This pace of accumulation slowed somewhat in the 1970s expansion – reflecting the uncertainty associated with oil price shocks, and the squeeze on profits from other sources. The “cold bath” of neoliberalism, led by the Volcker interest rate shock, significantly reduced the rate of accumulation – but then investment bounced back to pre-neoliberal growth rates during the long Clinton expansion of the 1990s. That strong investment contributed to strong employment results, and a partial recovery of real wages, during that time. After the turn of the century, however, real capital spending growth decelerated again, despite (or perhaps because of) the heightened financial exuberance of the time (facilitated by Clinton’s late-1990s financial deregulations). Since the global financial crisis and the Great Recession, real investment has hardly grown at all: by barely 1 percent per year since 2007. Real U.S. business investment actually declined during 2016, unusually for a non-recessionary setting.

Figure 1

Another way to measure the vitality of business investment is as a share of total GDP. This indicates the proportion of current output devoted to business capital spending. This

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5 Peak years are selected based on standard NBER dating; see NBER (2017). For simplicity in presentation several shallow cycles experienced between 1945 and 1960 are amalgamated into one long postwar expansion, and the short cycle dated from 1980 through 1981 was incorporated into the previous cycle.
comparison must be conducted in nominal terms (not real), since real measures of business capital spending and overall GDP are deflated with different, non-compatible deflators. Figure 2 illustrates the trend in the investment share since 1980. The top line indicates that gross business non-residential investment has declined by about 2 percentage points of GDP since the onset of neoliberalism. However, gross investment does not take account of the ongoing wear-and-tear of existing capital equipment, which must ultimately be replaced in order to maintain the accumulated capital stock. Depreciation rates on capital assets have increased slightly in recent years because of the faster pace of technical change and the relatively greater importance of shorter-lived machinery (rather than longer-lived structures) in total capital investment. The lower line in Figure 2 indicates that the decline in net investment (after depreciation) has been somewhat steeper than the decline in gross investment: declining by over half, to less than 2 percent of GDP per year on average since 2010. Net accumulation of real capital has been so slow, that both the capital-output ratio and the capital-labour ratio have been declining in the U.S. economy since 2010 – quite counter to the usual view that production is becoming dramatically more capital- and technology-intensive.

Figure 2

![Private Investment Share](image)

Source: Author’s calculations from BEA NIPA data; linear trend lines shown.

The sustained slowdown in U.S. business investment has occurred despite a marked improvement in business profitability since the advent of neoliberalism. Figure 3 illustrates the fall and rise of business profits in the U.S. over the postwar era. The measure illustrated is gross operating surplus (before deducting depreciation charges) for private firms; it’s the broadest measure of the core profitability of production.\(^6\) Initially robust profits after the war

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\(^6\) This measure includes the profits of small businesses, not just corporate profit, but excludes interest income and rents. Since the investment measures above also include smaller firms, it is appropriate to
were eroded by many factors (including rising unit labour costs), losing about 8 points of GDP share by the 1970s. Profits were not helped by the recession and “cold bath” of the 1980s, as harsh neoliberal policies were initially implemented. But they began to recover strongly in the 1990s, and have increased steadily since – interrupted only temporarily by the recessions of 2001 and 2008-09. Profit shares since 2010 have been the highest since the early 1950s, accounting for over 30 percent of all GDP, and recouping most of the share lost during the long postwar expansion.7

Figure 3

The contrast between rising profitability and falling net investment certainly damages the legitimacy of neoliberal trickle-down policies and politics. But it also highlights a more immediate, economic problem. Private firms are capturing a larger share of current output in the form of gross profit, but reinvesting significantly less than that back into new gross

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7 It is interesting (and not coincidental) to note that the U-shape of this profit-share graph closely matches the famous U-shape of top income shares that has been used to illustrate the decline in income inequality during the postwar boom, and its subsequent rebound under neoliberalism; see, for example, Piketty and Saez (2006). Since it is individuals with top incomes who own most business wealth, their personal incomes will automatically parallel the shifts in income distribution between factors.
investment. In 2015, for example, the gross operating profit of private firms, after deducting income taxes, was close to $5 trillion. Yet gross private investment in the entire U.S. economy was only $3 trillion. The difference represents a chronic drain on aggregate demand: companies are receiving strong income flows, which are only partially reinvested into new investment projects. The rest may be paid out in dividends (which have increased substantially as a share of GDP⁸), used to buy back shares or participate in other financial schemes, or simply hoarded. For example, Figure 4 indicates the accumulation of financial assets in the hands of non-financial U.S. corporations. Financial holdings by non-financial businesses have increased rapidly under neoliberalism, reflecting both the incentives of financialization (non-financial firms have tried to capture a share of lucrative financial profits), as well as the simple fact that businesses are literally taking in more profits than they know what to do with. After only a temporary fallback during the 2008-09 banking crisis, financial holdings of non-financial corporations began to grow rapidly again – reaching over 100 percent of total GDP for the first time in 2016. Non-financial corporations have been accumulating assets over the last five years at a rate of almost $1 trillion per year, or close to 5 percent of GDP per year, and this constitutes a significant and chronic drag on aggregate demand.

**Figure 4**

![Corporate Hoarding](image)

Source: Author's calculations from BEA NIPA data.

In sum, the deceleration of U.S. capital accumulation which became visible in the latter phases of the postwar expansion has not been resolved by the business- and capital-favouring policy measures implemented during three decades of neoliberalism. Redistributive

⁸ Net dividend payouts have averaged close to 5 percent of U.S. GSP since 2012, a postwar high, and more than twice the average payout of around 2 percent per year from 1950 through 1980 (author's calculations from BEA data).
and deregulatory policies have certainly restored the freedom, power, and profitability of U.S. business. But those restored profits have not “trickled down,” through renewed business capital spending, into expansionary investments and jobs for the American population in general. Instead, the upward redistribution of income has undermined spending conditions and economic activity: much of the economic surplus is now being consumed by high-income constituencies, or simply hoarded as financial assets, rather than being reinvested in accumulation. This non-investment undermines both short-term demand conditions and the long-run dynamism of the system; it has certainly contributed to the understandable disaffection of a large constituency of American workers and voters, whose real opportunities have diminished under neoliberalism, with no relief in sight. This is the constituency which Trump’s campaign successfully mobilized during the election campaign. Will his policy program deliver the promised change in the trajectory of U.S. investment?

The determinants of business capital spending

To judge whether Trump’s economic plan will succeed in revitalizing business capital spending in the U.S., it is useful to consider the major determinants of business investment typically emphasized in economic research. A distinction can be made between factors which may influence the overall pace of business investment arising within a particular system, and factors which influence the location of investment. Key factors determining the total volume of forthcoming capital expenditure emphasized in economic research include the following:9

- **Current and expected profit**: Current profitability, adjusted for judgments regarding future changes in profit, will motivate investment decisions – both by strengthening the incentive and by providing cash flow for finance. However the relationship between investment spending and business profits seems to have weakened in OECD countries under neoliberalism.

- **Capacity utilization**: If companies are pushing the limits of their existing capacity, they are more likely to increase investment to meet future demand.

- **Economic growth**: Empirical research shows a strong “accelerator” relationship between growth (which itself is influenced by investment) and further investment.

- **Interest rates**: For investments which must be financed through debt or other external finance, interest rates (and other measures of the cost of capital) will be negatively correlated with investment.

- **Economic, political, and legal stability**: Investing firms must have reasonable confidence about the stability and amenability of broader economic conditions, and the political and legal climate governing business activity.

- **Technology**: The clustering and spread of major innovations is often associated with sustained upswings in capital investment.

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9 This discussion is adapted from Stanford (2015), Chapter 12.
In addition to spurring a larger amount of total investment, the Trump program also pledges to relocate more investment decisions toward the U.S. Investment in relatively mobile, tradeable industries (like manufacturing or tradeable services) is most responsive to these location-specific factors, including:

- **Unit labour costs**: Low unit labour costs (considering both compensation and productivity) can be a lure for investment, especially in tradeable industries.

- **Infrastructure**: Firms benefit from high-quality infrastructure (typically paid for by the state) that facilitates their operations – including transportation, utilities, and social infrastructure (like education and training).

- **Supply chain**: In a vertically disintegrated production process, companies require the presence of a reliable network of nearby suppliers for the various materials, inputs, and services required in production.

- **Taxes**: Inter-jurisdictional differentials in business taxes (including corporate income, capital, and value-added taxes) may affect investment location decisions.

- **Transportation costs**: Firms will select locations that minimize total transportation costs, including supply chain logistics and delivery of final products to market.

- **Local market opportunities**: Access to nearby market opportunities may influence investment location, and may also be useful for marketing and political purposes.

- **Trade policy**: Inward foreign investment may be motivated by higher tariff or other trade barriers, which enhance the business case for local production (rather than imports). Alternatively, barrier-free access to other markets might also motivate investment location in some industries.

- **Political and legal risk**: Mobile investment will also depend on perceived stability in the long-run political and legal stability of host jurisdictions.

Some of these determinants of investment are addressed by Trump’s program, but many are not; the ability, therefore, of Trump’s policies to alter the general course of accumulation is inherently muted by the many factors beyond his control. Moreover, in several cases (such as the importance of strong aggregate demand in motivating capacity additions, and the role of business confidence in unleashing capital spending), it is not at all clear whether Trump’s presidency will help or hurt the business case for investing in America.

**Donald Trump’s plan for investing in America**

Given this catalogue of the usual determinants of business investment spending, we will now consider the various elements of Trump’s program, to assemble a composite judgment of the likely overall impact on U.S. private capital accumulation. Table 1 summarizes the major planks in Trump’s stated program, drawing on his election platform (the “Contract with the American Voter,” Donald J. Trump for President, 2016), and on other policy statements during and after the election.
## Table 1 Relevant Trump Policies and their Likely Effects on Investment

<table>
<thead>
<tr>
<th>Policy</th>
<th>Channel of Effect</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate tax cut or reform</td>
<td>Enhance after-tax profits.</td>
<td>Unlikely to reduce rate as much as promised; impact on profits muted by loopholes; impact of higher profits on investment weak; may simply facilitate more corporate hoarding &amp; dividend payouts.</td>
</tr>
<tr>
<td>Trade policy: end or alter trade deals, penalize imports</td>
<td>Reduce offshore competition; motivate repatriation of investment.</td>
<td>May slow outward migration of manufacturing investment; uncertainty posed by supply chain disruptions; unlikely to change fundamental pressures of globalization.</td>
</tr>
<tr>
<td>Increase infrastructure investment</td>
<td>Stimulate aggregate demand; improve productivity &amp; transportation.</td>
<td>Major new spending (if approved) will accelerate aggregate demand; demand benefits partly offset by tax/user fee plans; focus of new projects may be narrow.</td>
</tr>
<tr>
<td>Roll back energy and climate regulations</td>
<td>Open energy investment opportunities; reduce energy costs.</td>
<td>Will allow major energy projects to proceed (eg. pipelines, Alaska drilling); will reduce investments in renewables; energy prices not a major determinant of most investment.</td>
</tr>
<tr>
<td>Financial deregulation</td>
<td>More freedom for financial innovation and speculation.</td>
<td>Measures will enhance financial profits but not real investment; will fuel speculative and housing investments more than real capital.</td>
</tr>
<tr>
<td>Monetary policy</td>
<td>Slower demand growth; higher interest costs.</td>
<td>Trump’s Fed appointments will reinforce emphasis on financial deregulation; impact on interest rates not clear but likely hawkish.</td>
</tr>
<tr>
<td>Labour market and union policy</td>
<td>Reduce unit labour costs, enhance profitability.</td>
<td>Measures will boost profit margins in production but suppress wages and hence aggregate demand; exacerbate household financial instability.</td>
</tr>
<tr>
<td>Immigration restrictions</td>
<td>Reduce supply of skilled labour for innovation-intensive businesses.</td>
<td>Technology sectors have been crucial to U.S. innovation and exports; their investments (and even presence) in U.S. will be hurt by restricted talent immigration.</td>
</tr>
<tr>
<td>Expand military spending</td>
<td>More profit and investment opportunity for military contractors.</td>
<td>New projects and larger margins will increase defense sector profits and investments.</td>
</tr>
<tr>
<td>General aggregate demand</td>
<td>Increased sales, capacity utilization.</td>
<td>New spending and larger deficits (if realized) may support stronger aggregate demand and employment conditions; offset by continued upward redistribution of income, user fees, and cuts in civilian program spending.</td>
</tr>
<tr>
<td>General business confidence</td>
<td>Enhance willingness of firms to invest.</td>
<td>Initial stock market rally seemed to indicate business confidence in Trump policy; may be undermined by erratic or unstable actions; enhancing business power may not translate into more business investment.</td>
</tr>
</tbody>
</table>
The centerpiece of Trump’s investment program is his proposal to dramatically cut or reform U.S. business taxes. His platform promised to reduce the base corporate rate, from 35 percent to 15 percent, and to establish a new tax rate on repatriated profits from overseas operations of just 10 percent. Discussions within the Republican-led Congress since the election, however, have focused on a GOP proposal for a more radical restructuring of the corporate tax, replacing the standard corporate income tax with a so-called “destination-based cash flow tax” (DBCFT). This new tax would allow companies to fully deduct the immediate cost of new investment (rather than depreciating it gradually over time), and would not tax income on exports (under a “border adjustment” contemplated in the Republican proposal). The final outcome (in terms of both the form of tax, and its rate) will depend on political and budget negotiations over coming months or years; it is unlikely, given the to-and-fro that typifies U.S. budget-making, that the rate would fall by the full amount promised by Trump. Both cutting the existing rate, and shifting the structure of the tax, would certainly enhance the after-tax revenues of U.S. businesses. It should be kept in mind, however, that few companies pay the full 35 percent rate due to various loopholes, exemptions, and carry-forward losses, and hence the impact of reductions in the statutory rate on final profitability will be muted. With its alternative treatment of capital costs (allowing, in essence, immediate and complete write-off of capital investments), the Republican proposal would certainly enhance the tax treatment of new capital spending. However, the lack of responsiveness of U.S. investment to strong profits in recent years, and the accumulation of financial assets by non-financial firms, also suggest limited effects of higher after-tax profitability on investment.

Another high-profile element of Trump’s program is his aggressive statements regarding ending or renegotiating international trade agreements, and his threats to impose significant “border taxes” (or tariffs) on imported products. His stated goals are to reduce chronic U.S. trade deficits by limiting imports, and to encourage companies to invest in the U.S. to produce manufactured goods rather than importing them (especially from Mexico and China, the two countries which receive most of Trump’s negative attention). Trump’s early success in pressuring specific companies (like Ford Motor Co.) to cancel projects in Mexico, and increase investments in the U.S., might seem to presage a bigger relocation of investment back to the U.S. However, Trump’s plan to limit imports is not without risks of its own to U.S. business, including disruptions in established supply chains, and the potential for offsetting actions by U.S. trading partners (and hence the risk of a more generalized “trade war”). Trump’s financial and monetary policies (discussed below) are likely to spark appreciation of the U.S. dollar, which will offset some of the gains in relative competitiveness his trade policy changes might accomplish. It is also not clear to what extent Trump’s attacks on existing trade agreements and practices will be truly focused on repatriating manufacturing investment and jobs. For example, his trade policy statements have often stressed the need for even stronger patent rights for U.S. businesses (Baker, 2017); to the extent that his trade

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10 U.S. states also levy their own corporate income taxes, which average around 4% nation-wide.
11 Since 2010 the average effective rate of corporate income tax paid by U.S. corporations (29.1%) has been 10 full percentage points lower than the combined federal and state statutory rate (over 39%). The effective rate paid by U.S. companies has been comparable to average rates paid in other OECD economies (Hungerford, 2013). Tax avoidance in overseas tax havens has been an especially lucrative form of tax avoidance for U.S. business (Clemente, Blair, and Trokel, 2016).
12 It is not coincidental that other countries maintaining large trade surpluses with the U.S. have so far escaped the brunt of Trump’s protectionist rhetoric. For example, both Germany’s and Japan’s bilateral trade surplus with the U.S. were larger in 2016 than Mexico’s, and much larger as a share of two-way trade (implying a higher proportionate degree of imbalance). This suggests there are other motivations, including no doubt racialized ones, for Trump’s focus on Mexico and China.
13 Many observers also expect the Republican corporate cash flow tax plan, if implemented, to spark a sustained appreciation in the dollar as well (Gale, 2017).
agenda focuses on those issues (rather than on addressing trade deficits), it will hurt living standards of U.S. workers with no impact on real investment.

Trump pledged during the election to accelerate public infrastructure investments. He proposed a public-private initiative to allocate $1 trillion to infrastructure projects over the next ten years (implying a flow of new spending equal to $100 billion per year). U.S. public capital investment (by all levels of government) equaled close to $650 billion in 2016. The $100 billion per year flow of projects under Trump’s program will not be fully incremental (since some supported projects would have occurred anyway), so perhaps the program might boost existing public investment flows by around 10 percent. Public infrastructure spending can “crowd in” private investment via several channels. The immediate spending power of public investment strengthens demand conditions, employment, and incomes, thus supporting capital utilization and accelerating private investment. In the long-run, better public infrastructure can enhance private-sector productivity and capabilities, also encouraging faster private investment. Trump’s emphasis on public-private partnerships in new infrastructure may directly draw in private capital to these projects. Trump has pledged that the infrastructure program will be “revenue neutral”, implying that projects will be funded through new taxes, user fees, or other revenue collections; this would offset the demand-side benefits of the new spending.

The energy industry has been one of the most enthusiastic backers of Trump’s program, and it’s easy to see why. He targeted environmental regulations for special criticism throughout his campaign, and his cabinet nominations (notably including a known climate change denier as head of the Environmental Protection Agency) confirm that he intends to move quickly in dismantling U.S. environmental protections. He will quickly approve major new energy projects (such as the Keystone and Dakota Access pipelines); open up federal lands (including the Arctic National Wildlife Refuge in Alaska, and other offshore areas in the Arctic and Atlantic oceans) for energy exploration and development; and abolish the Obama administration’s Clean Power Plan. Trump’s promises to rescue the coal industry (which has faced falling demand, bankruptcies, and massive downsizing, mostly because of factors – like automation in mining and the falling price of natural gas – unrelated to federal environmental laws) were especially potent in several Midwest and Appalachian states during the election. Rolling back environmental rules will indeed facilitate some big-ticket energy investments, more in petroleum than in coal. (Even backtracking on clean power rules can’t reverse the rapid switch of electricity generation away from coal that has already occurred.) It is important to keep perspective on the likely scale of the investment response to this aspect of Trump’s program: energy and mining investment accounted for under 6 percent of total business fixed capital spending in 2015. So even a dramatic increase in capital spending in this sector won’t make a significant difference to total U.S. capital investment. Moreover, backtracking on environmental regulations may forestall significant capital spending that otherwise would have occurred in renewable energy and energy conservation. Much of American business will celebrate Trump’s environmental backsliding, but that does not confirm that it will translate into faster investment and growth.

Contrary to the pro-investment rhetoric evident in other policy areas, Trump’s financial and monetary policies seem out of synch with the overarching objective of accelerating real capital accumulation. Never mind his populist self-image, in one of his first acts Trump confirmed his true allegiances by ordering a review of the Dodd-Frank regulations implemented under the Obama administration after the 2008 financial crisis. Weakening restrictions on banks and quasi-banks, which were not very strong to begin with, is a clear sign that Trump is committed
to restoring the full power and freedom of the financial class. This implies a return to financial expansion, fragility, and instability. Recent history confirms that financialized exuberance tends to overwhelm the logic of real accumulation, especially when moments of crisis inevitably erupt. Trump’s vision of financial deregulation is a recipe for another financial catastrophe, not for faster investment in real capital.

Trump’s considerable influence over the future make-up of the U.S. Federal Reserve Board of Governors will reinforce this bias in favor of financial deregulation and financialization. Trump can immediately nominate two vacancies on the seven-member Board, and a third in April when David Tarullo retires. Trump can also nominate a new vice-chair for banking supervision (a post which is currently vacant). Further vacancies on the Board are likely to come open during the next two years, and the Chair, Janet Yellen, must be reappointed or replaced after February, 2018. During the campaign Trump railed regularly against Yellen and the Fed for keeping interest rates “artificially low”, supposedly to enhance the Democrats’ election prospects. This implies that Trump will nominate new Governors with a more hawkish orientation – although his priorities may change as his own economic and fiscal plan rolls out. There is no doubt, however, that Trump’s Fed appointments will be supportive of his general emphasis on reinforcing the power and privilege of the financial industry; given the Fed’s various responsibilities for banking supervision, this will be reflected in a lighter regulatory touch. Again, the reassertion of financialized logic as the dominant force in the U.S. economy is likely to undermine real investment and accumulation, not strengthen it.

In labor market policy Trump will also quickly confirm that he is no friend to the dislocated and alienated workers who supported him in key rustbelt states. He will certainly act to further undermine the bargaining power of workers with regulatory changes that suppress wages. Regarding the federal minimum wage, Trump espoused wildly contradictory positions during the election: ranging from increasing it, to freezing it, to abolishing it altogether (handing all authority to individual states to set legislative minimums). His initial nominee for Labor Secretary – fast food magnate Andrew Puzder – was energetically committed to weakening labor protections; this provided a good clue as to Trump’s intentions, regardless of Puzder’s eventual withdrawal from the nomination. The labor relations community widely expects Trump to push, with support from the Republican Congress, for nation-wide “right-to-work” provisions that would prohibit union security clauses (like dues check-off procedures), thus universalizing the bars to union organizing that already prevail in half the states (Meyerson, 2016). All of this will undermine general wage pressures, labor incomes, and consumer spending. Business will celebrate increased workplace power and profit margins. Again, it is doubtful this will translate into increased investment effort. To the contrary, there is growing macroeconomic evidence that the U.S. economy is wage-led, especially in light of the longer-run stagnation that has characterized aggregate demand conditions since the 2008 crisis (Lavoie and Stockhammer, 2014; Blecker, 2016). This suggests that Trump’s wage-suppressing policies will do more harm than good to overall growth and employment; the resulting weakness in domestic demand will probably overwhelm fatter profits in influencing future investment.

Another labor-related policy likely to backfire on investment is the Trump administration’s aggressive efforts to curtail immigration. Dynamic clusters of technology-intensive firms in key innovation centers have been a rare bright light in the lackluster performance of U.S. investment and business development in recent years. Trump’s initial ham-fisted restrictions on immigration, catering to the populist sentiments that helped him win the election, will shock the business models of those industries. Their capacity to attract leading global scientific and
innovation talent to the U.S. will be constrained, and the willingness of international experts to come will be significantly damaged by both the new rules themselves, and the climate of division and scapegoating which they cater to. Public research and innovation activity (including at universities and elsewhere) will also be damaged.

Trump’s bellicose approach to world affairs will also be reflected in his defense spending policies. He has committed to a substantial increase in defense spending, and this will support sales, profits, and future investments for defense contractors. As with his expansive plans for infrastructure investments, the defense spending increases are meant to be “revenue neutral”: Trump promises to offset them with equivalent cutbacks in other public programs and spending. In this regard, the net effect of bigger defense budgets on overall demand conditions will likely be negative – since capital-intensive defense programs will provide a smaller boost to total employment and incomes than the same amount of spending being cut from more labor-intensive public programs. Nevertheless, within the defense industry the Trump program will motivate new investment and research. If Trump’s aggressive approach to international affairs culminates in actual war, then of course future defense budgets will swell even further. But U.S. spending on other military misadventures in the recent past (such as the long Iraq campaign) was also enormous – and while certain sections of business profited mightily, this did not translate into all-round economic dynamism.

The biggest impact of Trump’s policies on business investment may not come from any of the specific policy measures catalogued above. Instead, the most important impacts may be felt indirectly through the effect of Trump’s program on the overall vitality of aggregate demand in the U.S. economy, and on the general confidence of the business leaders who must ultimately commit funds to real investment projects. On these counts, the likely impact of Trump’s program is contradictory and uncertain. Financial markets had originally interpreted Trump’s victory as a sign of an impending boost to demand conditions and inflation. This view was behind the initial post-Trump spurt in U.S. stock market indices, and the corresponding pullback in bond markets (fretting over future inflation and higher interest rates). The common view was that Trump’s expansion of infrastructure and defense spending, combined with tax cuts for business and high-income households, would create a larger deficit, faster growth, and higher inflation. It is a painful irony, of course, that a Republican Congress could ratify larger deficits under Trump than those they blocked under the preceding Democratic administration. But a more careful review of Trump’s specific proposals suggests that the net impact on final demand of his fiscal plan will be more modest. Both the infrastructure and defense measures are meant to be revenue-neutral – offset by user fees in the former case, and offsetting civilian program cuts in the latter. The demand stimulus arising from corporate and high-income tax cuts is muted by the hoarding of both businesses and wealthy households. And the whole expansion could be thrown into neutral or even reverse by a Federal Reserve Board that is likely to be more hawkish after Trump’s appointments. In sum, it seems unlikely that Trump’s program will initiate a sustained macroeconomic recovery.

The same mixed judgment is true of his impact on business confidence. True, business elites have celebrated Trump’s unapologetic willingness to cut business taxes, dismantle regulations, and suppress wages. Those are core priorities for corporations and the mostly wealthy people who own them. On the other hand, Trump’s erratic and contradictory behavior, and the deeper political and legal uncertainty which his tenure could bring (internationally as well as within the U.S.), will spark caution on the part of businesses. If the long upswing in business profits that accompanied the consolidation of neoliberal policy in the U.S. has not elicited a more vibrant investment effort on the part of business, it is not likely
that a little icing on the cake delivered by an erratic, authoritarian, and potentially destabilizing leader will somehow open the vaults and get all that capital flowing.

Conclusion: the indolence of late capitalism

The weakness of private business investment in most developed countries through the neoliberal era is difficult to explain on the basis of a standard regression equation. Most of the usual determinants of investment – including profitability, interest rates, and tax and regulatory policies – were aligned in a direction that should have elicited more private investment effort. But the neoliberal recipe delivered less investment, not more. And the failure of accumulated wealth to trickle down creates major economic and political problems for the system and its elites.

For all of Donald Trump’s claims of being an “outsider”, changing the traditional rules of politics and policy, his economic program is absolutely consistent with the general direction of the trickle-down, neoliberal policies that have already governed the U.S. for almost four decades. Trump will further shift the distribution of income upward to corporations and those who own them. His policies will suppress the incomes and the consumption of workers – including cutting their public services. His regulatory and fiscal priorities will favour investment in expensive, capital-intensive sectors (like energy and defense) that support relatively few jobs, while imposing enormous costs on broader society and the planet. His financial and monetary policies will continue to privilege financial wealth and speculation over real investment and production, undoing even the baby steps taken to rein in finance after the conflagration of 2008. The core logic of his approach is transparent: enhance the wealth and power of business and the wealthy, and they will invest more in America, and everyone will prosper. There is very little novel content in Trump’s incarnation of trickle-down policy, and very little reason to believe that it will succeed in revitalizing business investment activity that has chronically disappointed. Outside of bursts of new activity in a couple of targeted sectors (like energy and military industries), there is no reason to expect that the trajectory of U.S. business investment will improve in any sustained fashion under Trump’s guidance. Certainly his program cannot recreate the virtuous combination of driving factors that powered the long postwar boom in U.S. capital accumulation: near-full employment, a growing public sector, and strong productivity growth, all of which (for a while) reinforced the vitality of private investment.

Even if the Trump program did succeed in motivating a generalized resurgence in U.S. private business investment, of course, Americans (and others around the world) would have to ask themselves, “At what cost?” A temporary burst in investment in fossil fuel extraction and consumption, achieved by abandoning environmental regulations that were already too weak, is of dubious value when the costs of fossil fuel use are becoming intolerable. Similar questions could be asked about the general strategy of reinforcing profit margins through the suppression of wages and other socially destructive levers, in a country which already experiences more poverty and inequality than any other industrial nation. Business investment is never an end in its own right; it is socially beneficial only to the extent that it underpins job creation, incomes, productivity, and ultimate improvements in living standards. Trying to elicit a bit more investment effort by suppressing living standards a little further, is self-defeating to the ultimate purpose of economic development.
Investment in the U.S., and other advanced industrial countries, is held back by more fundamental problems than corporate tax design or environmental regulations. The fundamental vitality of the profit motive in eliciting accumulation, so celebrated in the early chapters of capitalist history, seems to have dissipated. The owners of businesses are content to consume their wealth, or hoard it, or speculate with it, instead of recycling it via new investments. Ever-more desperate attempts to elicit a bit more investment effort never seem to alter this stagnationist trajectory – with the incredible result today that overall production is actually becoming less capital-intensive, despite “miraculous” technological innovations. Trump is giving the trickle-down theory one more kick at the can, having successfully capitalized on popular discontent with the failures of previous attempts. Progressives must work harder to illuminate the failure of this business-led economic logic, and come up with other visions for financing capital investment, innovation, and job-creation that do not depend on fruitlessly bribing the investing class to actually do the job it is supposed to.

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Trumponomics and the “post-hegemonic” world

Barry K. Gills and Heikki Patomäki  [University of Helsinki, Finland]

“Turning and turning in the widening gyre
The falcon cannot hear the falconer;
Things fall apart; the centre cannot hold;
Mere anarchy is loosed upon the world,
The blood-dimmed tide is loosed, and everywhere
The ceremony of innocence is drowned;
The best lack all convictions, while the worst
Are full of passionate intensity.
Surely some revelation is at hand.”
(William Butler Yeats, “The Second Coming”, 1919)

(Note: a Factiva analysis has shown that the “The Second Coming” has been quoted more in the first seven months of 2016 than in any of the preceding 30 years.)

Introduction: taking the “long view”: alarm or déjà vu?

All models for a world order are contested and historically temporary. They have an origin, a development and apogee. They may become real for a while under particular changing world-historical circumstances, but they have an (inevitable) historical demise or decomposition, giving rise to new configurations in new eras of history. The present international political and economic conjuncture is no exception. The illusion of global systemic stability has once again been shattered. The fragility and vulnerability of the present US-led market-globalist status quo is now exposed, naked for all to see. Although the present malaise and growing anticipation of impending global systemic disorder may seem to have arisen suddenly, precipitated by recent developments (e.g. post-Arab spring chaos, the endless euro crisis, conflict in Ukraine, the Brexit vote and especially Donald Trump’s election as US president), in reality its root causes are long term and much deeper than surface appearances may reveal. We will argue that the design of the post-WWII “world order” already carried the seeds of the present state of disarray.

The present situation is one of great uncertainty, touching upon the formal institutional arrangements of the post-WWII international system and its rules, norms and principles. It is the acute manifestation of cumulative historical currents of transformation already long at work. So great is the intensity of feelings in the present moment, full of provocation to the
established order, that in recent months a new chorus of voices has arisen to defend the still prevailing “order”. This is in response to what many now perceive to be a genuine existential threat to the (neo) liberal system of values and practices. These vocal commentators tend to share a sense of urgency, even alarm, and a common fear of impending global disorder. The atmosphere is replete with dire predictions, e.g. of the end of the West itself or at least of its dominance in global political economy. These new systemic defenders typically lament the demise of what they tend to represent as a universally benign, beneficent, and prosperous form of hegemonic order, one designed, lead, and maintained by the power of “The West” and depending pivotally on the role of the United States of America as its leading power.

The provocations to the status quo are perceived to be so great, and the existential threat so imminent, that the self-appointed defenders of the established order react with a tendency to idealize the existing international political and economic relationships, and in Panglossian tones elevate its presumed virtues for humanity onto a higher moral plane. This reaction accords with the basic ideas of hegemonic stability theory (HST), positing that a single hegemonic state is both a necessary and a sufficient condition for an open, liberal world economy. A similar response was evident in the “declinist” literature of the 1970s and 1980s regarding the debate at the time concerning the perceived decline of US global hegemonic power (as so acutely analysed by Strange, 1987; and Grunberg, 1990). However, this was partly, and temporarily, set aside by the end of the Cold War and during the “roaring nineties” (Stiglitz, 2003) and its aftermath. This aftermath finally ended in the global financial crisis of 2008-9. Since then some pundits have started to argue “this time it’s real” (e.g. Layne, 2012; for discussion see Wohlforth, 2012). While we concur with HST-theorists that current developments can have tangible negative consequences through the mechanisms and processes of the world economy, we fundamentally disagree about both the causes and nature of this disarray and alternatives to it.

The late Susan Strange (1987, p. 552), a British professor of International Political Economy and self-proclaimed loyal opposition to the US in its role as global hegemon, compared the myth of lost hegemony to the once widely believed idea that German-speaking people came from a distinct Aryan race and to the persistent myth that rhinoceros horn is an aphrodisiac. Strange warned that the persistent myth of lost hegemony can be every bit as dangerous by inducing unashamed self-regarding behaviour. Following Strange, we may argue that as the “hegemon” abandons the hegemonic role defined in terms of common good and asserts its own narrow self-interests, which often involves reliance on double standards, then there are (unintended) consequences for itself and for the world economy as a whole. Double standards can be seen as an act of increasingly narrow power: those who possess the greatest power are able, for a while, to make the rules that others must follow, while the most powerful do not always necessarily follow these rules themselves. Over time, however, double standards erode the legitimacy of those very standards.

In this paper, first we will outline the logic of hegemonic stability theory and expose its vagueness and ambiguities. Second, we will discuss the issue of whether global cooperation is possible “after hegemony”, as argued by Robert Keohane in 1984 (Keohane, 2005), one of the original authors of hegemonic stability theory. According to Keohane, while a hegemonic state may facilitate the emergence and development of common institutions, they may well continue to exist and function after hegemony, in a decentralized way through extended,
bendable and institutionally ensured tit-for-tat strategies. The obvious problem from this point of view is that if the former hegemon refuses to cooperate, it can lead to a spiral of tit-for-tat retaliations. Third, we will show the limitations of this economistic literature and discuss alternative conceptualizations of hegemony and the politics of global cooperation. Global common good is profoundly contested, in both theory and practice. How it should be seen depends on our factual and normative theories of political economy and peace and security.

Finally, we argue that a dialectical perspective on change and continuity in world history can be a powerful analytical tool for understanding the causes and consequences of the present global conjuncture and potential crises. The appearance of stability and of fixedness in the international “order” is more of an illusion than a reality. From a dialectical point of view, events are understood as multiple layers of the contradictory and complementary, and often inner determination “to which they own their hidden unities, divergent meanings, and possible futures” (Alker, 1996, p. 351). Thus HST, under current historical circumstances, may function to justify, and thus co-generate, President Donald Trump’s approach to US trade and security policies. When weaker states are perceived to free ride on the US, in the new US administration’s view it is apparently only fair that the US should apply countervailing measures, either to balance its current account or to compel others to pay the costs for the military burden of defending them.

“Hegemonic stability” of the liberal-capitalist world economy is a particular model for a world order, but it is certainly not the only one. World order models in this broad sense constitute those doctrines of practical action and institutional design that exist, reign, cooperate, compete and at times clash in any given geo-historical era. Doctrines codify the lessons learned from previous practices; and doctrinal debates define the geo-historical eras and their characteristic practical and institutional arrangements. Collective learning and the exercise of power (understood as transformative capacity), not least by social movements, determine which doctrines prevail.

**Hegemonic stability theory**

HST emerged at a time when the partial collapse of the Bretton Woods system was widely conceived as a sign of crisis in US global leadership. This perception was further reinforced by the catastrophe of the Vietnam War and the rise of the New Left movement. Basically, HST claims that the stability of the world economy is dependent on the benevolent leadership of the hegemonic state. HST was first proposed by economic historian Charles P. Kindleberger (1973) in *The World in Depression 1929-1939*. In the concluding chapter of that work, “An Explanation of the 1929 Depression”, Kindleberger suggested a chain of partly contrastive historical analogies between three eras. The first was the era of free trade under British leadership from 1846 (abolition of the Corn Laws) or 1860 (further elimination of tariffs)

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2 See the special issue of *Globalizations* on “Dialectics and World Politics”, Vol. 11 Number 5, October 2014, edited by Shannon Brincat.

3 “World order can be conceptualized as a cohesive system of ideas (or world view) mutually or intersubjectively shared by [actors], including those located in different communities across territorial boundaries. This cohesive system of ideas and normative values encompass ideas about political and economic systems, conceptions of religion (and its role in society), ontological and epistemological assumptions, a sense of mission in the world, a conception of the scope of that world, practices of legitimation, and ways of ordering, creating and forgetting history.” Alker, Amin, Biersteker and Inoguchi (1996: 9).
until 1913. The second was the interwar era of 1919-39, when the US first refused to accept the role of hegemonic leadership and then resorted to the protectionist Smoot-Hawley Tariff Act of 1930 in response to the financial crisis and its consequences. The third was the era of the US (hegemonic) leadership in 1945-71. In addition, the fourth era was beginning in the 1970s, when the US was arguably “beginning to slip” (ibid., p. 307), but which we retrospectively know as the era of neoliberalism or market-globalism (see Harvey, 2005; Steger, 2009; Springer, Birch and MacLeavy 2016). Kindleberger anticipated future tendencies towards protectionism and a diplomatic stalemate between the US and EEC. The next forty years turned out different, but in Kindleberger’s historical reading, a stalemate and repression would mean a heightened danger of regressive spiral into war.

These historical analogies were subsequently formulated into a general theory by Stephen D. Krasner (1976), Robert Keohane (1980), Robert Gilpin (1981), and Kindleberger (1981) himself. In Krasner’s (1976, p. 318) formulation, the main hypothesis of the theory is that “a hegemonic distribution of potential economic power is likely to result in an open trading structure” and, more generally, in an open world economy. Krasner qualified his state-power argument by talking about delayed political reactions to changes in patterns of trade and finance and structures of production; the actual effects of gradual economic changes may in some cases become visible only after decades. Moreover, “some catalytic external event seems necessary to move states to dramatic policy initiatives in line with state interests” (1976, p. 341). Policy-choices are thus path-dependent, and states become rather easily locked into the pattern set by their previous choices.

The key assumption underlying the theory of hegemonic stability, however, is that free trade and maximal (global) openness in investments and finance are beneficial to everyone, albeit not equally so, in sharp contrast to many alternative perspectives (such as Rodrik 2001; Unger 2008):

“Neoclassical trade theory is based upon the assumption that states act to maximize their aggregate economic utility. This leads to the conclusion that maximum global welfare and Pareto optimality are achieved under free trade. While particular countries may better their situations through protectionism, economic theory has generally looked askance at such policies. […] Neoclassical theory recognizes that trade regulations can also be used to correct domestic distortions and to promote infant industries, but these are exceptions or temporary departures from policy conclusions that lead logically to the support of free trade” (Krasner, 1976, p. 318).

Krasner stressed that the benefits are clearest in the case of large and technologically advanced states and for some small states, but large backward states may in some cases experience excessive costs from trade openness. Krasner’s qualifications notwithstanding, in the next step of the development of the theory, liberal international order was bluntly defined as a (global) public good. The global public good was supposed to include the definition and enforcement of property rights, resolution of disputes, stability and security (Gilpin, 1981,

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4 Note that Kindleberger fails to account for the turn to neo-imperialism in 1874-1914. Patomäki (2008) presents a different – also more protectionist – picture of the developments in the late 19th and early 20th century. See also Andre Gunder Frank’s final posthumously published work, Reorienting the Nineteenth Century: Global Economy in the Continuing Asian Age, (Frank 2014) in which the global pattern of capital flows orchestrated under British imperialism plays a central role.
Yet these HST theorists were not united about the nature of what constituted that ‘good’. Whereas Kindleberger emphasised moral responsibilities and the need to overcome temporary asymmetries and counter business cycles, Gilpin, by contrast, put forward a more neo-imperialist interpretation:

“As was the case with premodern empires, the hegemonic powers may be said to supply public goods (security and protection of property rights) in exchange for revenue. The Pax Britannica and Pax Americana, like the Pax Romana, ensured an international system of relative peace and security” (Gilpin, 1981, p. 145).

The theory of hegemonic stability thus depicted 19th century Britain as a model for the late 20th and early 21st century US. The precise ethical and political implications of the theory were somewhat unclear, however. Gilpin presented a gloomy picture of future options. Despite the Cold War bipolar structure being a major stabilising factor, threatened only by the continuous rise of the Soviet Union, Gilpin argued that “the danger of a hegemonic war is very real” (ibid., p. 234). His prescription: a hegemonic or imperial enforcement – i.e. that powerful states should control the “lesser states” – for global security and protection of property rights, has been taken seriously by many US-based scholars, politicians and journalists. Coupled with the assumption of the benevolence of the hegemon and related apologetic narratives, this line of thinking readily lends itself to the conclusion that the US has been assuming an unfair share of sustaining the global public good. Strange (1987, p. 552) expressed the main practical implication of the theory:

“[T]he myth of lost hegemony is apt to induce in everybody only pessimism, despair, and the conviction that, in these inauspicious circumstances, the only thing to do is to ignore everyone else and look after your own individual or national interests. Thus, some of the same American contributors to International Organization who are personally persuaded of the benefits of more international cooperation and conflict resolution, may paradoxically be contributing to a less cooperative environment by subscribing to and perpetuating the myth of lost American power.”

Trump’s project to “Make America great again” has deep historical roots. The erosion of the Bretton Woods system triggered the emergence of the US-American myth about lost hegemony and its global consequences. The Bretton Woods system itself was inherently dilemmatic and presupposed a largely disintegrated world economy of the 1940s and its continuous economic domination by the US. The Triffin Dilemma was a direct consequence

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5 Note that all these are aspects identified by Hedley Bull (1977) as constitutive of his definition of “order” per se, which in turn are exactly the same as David Hume’s principles of justice in capitalist market society. The three fundamental rules of Humean justice, namely, stability of possession, transfer by consent, and keeping of promises, are argued to be laws of nature, i.e. universally applicable.

6 Isabelle Grunberg (1990) argues that the appeal of the theory stems from its mythic structure. The day-to-day dilemmas of the US foreign policy-makers are mixed with American ethnocentrism, assumptions about the benevolence of the US and claims that the “small exploit the rich”. Further, the theory accepts uncritically the idea that free trade and security of property rights are public goods.

7 According to Robert Triffin (1961; see also 1968), if the United States stopped running the balance of payments deficits, the world economy would lose its largest source of additions to reserves. The resulting shortage of liquidity could pull the world economy into a contractionary spiral, leading to instability. If US deficits continued, a steady stream of dollars would continue to stimulate world economic growth. However, excessive US deficits (dollar glut) would erode confidence in the value of the US dollar. Without confidence in the dollar, it would no longer be accepted as the world’s reserve
of the decision reached in Bretton Woods – on the insistence of the US – to make the dollar the currency of world trade, and let creditors retain their surplus and remain passive. The turning point of the early 1970s would not have occurred until much later had Keynes’ proposal been implemented in full, and it could have occurred in a very different way (Patomäki, 2008: 185-90). The implication of the HST – that others should be made to pay for the maintenance of the existing “order” and indirectly thereby subsidise the costs on US terms – has paved the way towards the US inclination to become, over time, ever more self-regarding.

Of the early developers of HST, Kindleberger (1973, p. 308) was open to the alternative of new “international institutions with real authority and sovereignty” to govern the world economy (i.e. an evolutionary path towards a “post-hegemonic” situation, with increased trans-nationalisation of state authority, governing a highly trans-nationalised global economic system). However, he too seems to have ultimately assumed that agenda setting and decision-making must always be hierarchical at least to a degree; i.e. one state must always lead and others must follow.

International cooperation “after hegemony”: a reconstructive critique

The assumption underlying HST that a single hegemonic leader is necessary for effective international cooperation (to uphold the existing international institutions of “order” and ensure the stability of the global capitalist economic system) was questioned by Keohane in his 1984 book After Hegemony: Cooperation and Discord in the World Political Economy. In this book, Keohane (2005) argues, “it might be possible, after the decline of hegemonic regimes, for most symmetrical patterns of cooperation to evolve after a transitional period of discord”.

Keohane uses game theory to show that spontaneous cooperation can emerge even among egoists and in the absence of common government, but “the extent of such cooperation will depend on the existence of international institutions, or international regimes, with particular characteristics” (2005, p. 13). The possibility of effective international cooperation continuing or even blossoming “after hegemony” is reinforced by the complementary nature of hegemony and international regimes. These can both make agreements possible, and facilitate continuing compliance with the rules established in this system of world order. Keohane thus made it clear that in his analysis there is no need to expect a serious historical decline in international cooperation in the 1980s, 1990s or beyond, even as the dominance of the US within the system undergoes gradual decline. The ‘system’ itself will not collapse into a state of chaos or disorder. On the contrary, there is a real prospect that vital post-war international norms, institutions, and practices will not only continue, but will even be strengthened. This is a condition he refers to as “non-hegemonic cooperation” (Keohane, 2005, p. 79).

Keohane’s optimistic account of the development and maintenance of co-operation after hegemony rests, however, on a view of states-as-rational-egoists. He concretely considers instances of international cooperation in fields such as monetary policy and the oil sector, as an iterated prisoner’s dilemma (PD) game (following Axelrod, 1984). He extends his analysis of currency. The fixed exchange rate system could break down, leading to instability. Triffin’s idea was to create new reserve units. These units would not depend on gold or currencies, but would add to the world’s total liquidity. Creating such a new reserve would allow the United States to reduce its balance of payments deficits, while still allowing for global economic expansion.
to cover the impact of ethics, power, and institutions on international co-operation. According to Keohane, tit-for-tat is the best strategy in an iterated PD-game. However, a large number of players, asymmetric information, moral hazard and irresponsibility often complicates the situation. On the other hand, multiple parallel games in many issue areas, the unequal nature of inter-state relations (in terms of power: only some states really count), and the existence of established international organizations can alleviate these problems.

"Thus intensive interaction among a few players helps to substitute for, or to supplement, the actions of a hegemon. As a hegemon’s power erodes, a gradual shift may take place from hegemonic to non-hegemonic cooperation. Increasingly, incentives to cooperate will depend not only on the hegemon’s responses but also on those of other sizeable states. Such a transition may be difficult in practice, since expectations may lag behind reality; but nothing in rational choice analysis renders it impossible" (Keohane, 2005, p. 79).

Keohane has not been alone in envisaging the possibility of future international cooperation without a single hegemon. For instance Oran Young (1989; 1991), although he retains the view of states-as-rational-egoists, has considered various forms of initiative and leadership also in creating new regimes of cooperation, including intellectual leadership. Peter Haas (1989; 1992) goes beyond the state-economism of Keohane and many others and argues that there are transnational communities of experts, who share epistemic standpoints, and who are able to take part in the process of interest and identity formation both within states as well as within the regional or global level, often facilitating cooperation. Moreover, rules and institutional arrangements are important, because they enable and facilitate learning that can, and often does, lead to the convergence of the policies of states. For instance, along the lines of this perspective, John Ikenberry suggests that the origin of the Bretton Woods system should not be seen merely in terms of the “structural” power of the US but also in terms of an epistemic community of British and US economists and policy specialists, which fostered the Anglo-American agreement (Ikenberry, 1992).

The concept of epistemic community is in some ways similar to that of world order (or “world order model”; see footnote 3), but more limited. For Braithwaite and Drahos (2000), the world is already “post-hegemonic” in the sense that while it has been frequently the case that if the US and the EU agree on a particular form of global cooperation and regulatory change, this change gets fostered. However, under certain circumstances the will and initiatives of many other states and NGOs and key individuals have made a difference; and the role of transnational networks and epistemic communities is often decisive. Since Braithwaite and Drahos wrote their book, the role of the BRICS countries has grown, as is evident from the stalemate of the WTO Doha round.

The neo-Gramscians have gone further toward developing a dialectical account of the development of global institutions of cooperation. Robert Cox (1987; 1996), in particular has emphasised that there are always different kinds of social forces involving capabilities for

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8 Sonja Amadae (2015) traces the causes of the decline of virtues and common good in the American political system in the rise of rational choice theory and especially game theory as exemplified by the Prisoner’s Dilemma model. Game theory was used, among other things, for developing nuclear strategies for the US state during the Cold War. Thus it is best seen as constitutive of some key state practices rather than as an external explanation of them.
production or destruction; institutional arrangements; and collective understandings.\textsuperscript{9} Once created, institutional arrangements “take on their own life” and can “become a battleground for opposing tendencies, or rival institutions may reflect different tendencies”. New forms of social existence can emerge, made possible by (new) forms of production but also as a response to the consequences of certain modes and relations of production. Novel forms of social existence necessarily imply new collective understandings and systems of knowledge that are constitutive of their existence and often articulated by “organic intellectuals”. Consequently, these emergent new actors, groups and collectives can then take part in the struggles within and about certain institutional arrangements, and also within and about those that have to do with the governance of global political economy. Systems are open, change is ubiquitous and everything is historical, although there are patterned processes that enable us to anticipate aspects of the future.\textsuperscript{10} The “dialectics of world orders” occurs within existing practical and institutional settings, but they may also contribute to the transformation of these arrangements and settings.

**Trumponomics: its possible and likely global consequences**

The demise of the Bretton Woods international monetary system in the early 1970s was a consequence of the US unilateral abandonment of US dollar-gold convertibility. The so-called “Nixon shocks” rocketed throughout the world economy, producing profound monetary and economic instability, which arguably persists to the present. Contrary to mythologised accounts of “benevolent” US “hegemony”, the actual historical record reveals contradictory policies by the dominant power throughout the post-Bretton Woods era. The present Trump administration’s economic and strategic policies represent important continuities and indeed intensification of past US non-cooperation internationally, rather than an abrupt about-face.

Trump’s economic and security policies mostly just radicalise existing US foreign policy practices, although this radicalisation may also involve qualitative changes, for example in US trade policy, where self-regard is now assuming also protectionist forms. Chief White House strategist Steve Bannon, in a 2014 speech, invoked the Italian fascist thinker Julius Evola, saying that “changing the system is not a question of questioning and polemicizing, but of blowing everything up” (Navidi, 2017). This point of view also reflects a new attitude of greater US assertiveness in foreign and security policy. According to former US Secretary of State Madeleine Albright, attending the recent Munich security conference in mid-February 2017, representatives from several countries, including Turkey, Iran, China, and Russia made speeches invoking the theme of a “Post-Western World” (Glasser, 2017). Albright’s impression of reactions from other states to the new US foreign policy stance reveals a change of mood, “there was a sense that the bullying approach of the Trump administration was alienating people rather than giving them solace in terms of the fact that we still were a

\textsuperscript{9} See also the recent special issue of *Globalizations*: “From International Relations to World Civilizations: The Contributions of Robert W Cox”, edited by Shannon Brincat, Vol. 13:5, October 2016.

\textsuperscript{10} In his writings from the early 1990s, Cox (1996, pp. 231-2, 311) foresaw remarkably well the possible and likely developments of the next 25 years. He analyzed the neoliberal era in terms of a global Polanyian double movement and contestations among different social forces and world order models. The decline of hegemony in the system “undermines conviction in the legitimacy of the principles upon which the globalization thrust is grounded”. Segmented polarization leads to identity politics, where nationalism rises and “Islam, for instance can become a metaphor for Third World revolt against Western capitalist domination”. “The other tendency is toward a world of economic blocs”, competing for shares in world markets and raw materials. And “a financial crisis is the most likely way in which the existing world order could begin to collapse”.

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united world.” She lamented that at Munich, the US had moved from being the “centre of attention” to becoming “the centre of doubt” (ibid.).

Alongside his intentions to conduct a very large infrastructural investment plan, the US president, in a speech on 24 February 2017 to the Conservative Action Conference, pledged to execute “one of the greatest military build-ups in American history”, upgrading all aspects of the US military, both offensive and defensive. First indications of the 2018 federal budget outline by the White House also includes core emphasis on strengthening the US intelligence and national security apparatus, including homeland security and the law enforcement agencies. The commitment by the new administration to a balanced budget approach, however, despite the anticipated large increase in military and security expenditures, means that many other areas of federal spending would undergo very deep cuts, for instance funding for the Environmental Protection Agency, or even the State Department, along with many other federal department budgets and programmes. The Heritage Foundation has apparently initiated discussion circulating on Capitol Hill aiming at cumulative reduction of federal spending of 10.2 trillion US dollars over a ten-year period. However, congressional approval and formal appropriation legislation is necessary for these policy ideas to be translated into reality, and this, given the recent history of deep divisions on fiscal policy issues across the political spectrum in Congress, seems doubtful. If these policies are ever executed in full, this represents nothing less than a radical transformation of the state itself, and a reorientation of its primary roles in both domestic and global contexts.

All this is an example of a process that has become self-reinforcing. Over time, this process has led to pathological learning by reducing collective learning capacity and by hardening, on the whole and over time, the will of the changing US foreign policy makers. Trump’s election is a further step in this process. Already in the 1990s and early 2000s there were a large number of US international non-cooperations, including its posture towards ILO conventions, the Law of the Sea Convention, the Convention on Biological Diversity, the Kyoto protocol, the International Criminal Court and the Landmines treaty. At present, there are concerns that the new US administration intends to withdraw or not cooperate with the Paris Agreement on climate change, arguably the single most important global issue for effective international cooperation to address a severe threat to human security. There are rumours circulating in Washington that the US administration is considering withdrawing from the UN Human Rights Council, in part due to alleged “bias against Israel” in that organisation. George Soros, the well-known global financier and promoter of a global open society named the US as “the major obstacle to international cooperation today” already 15 years ago (Soros, 2002, p. 166). Moreover, Soros shared the observation of many that despite the US holding “special responsibility” due to its globally dominant position, the US has “not always sought to abide by the same rules that apply to others” (ibid., p. 167).

The exercise of double standards by the US, and the dogged pursuit of its own national sovereignty and narrow “national interests”, contradicts and tends to undermine the course of international cooperation and thus destabilise the world economy (when one is actually applying double standards is of course open to conflicting interpretations). The irony in this historical situation is that the US appears, both past and present, to assume that the “others” will nevertheless continue to abide by the agreed rules, norms and principles, though often it does not do so itself. Future scenarios of global change will now largely pivot upon how all these “others” will respond to changes in US attitudes and actions. Will the US continue to act uncooperatively internationally, and single-mindedly pursue its vision of strengthened “national sovereignty” (at home and abroad)? The consequences of such a course are likely
to be highly disruptive, not only for the formal sphere of international cooperation and prospects for future global governance, but for the global economic system as well. A spiral of aggressive actions and retaliatory reactions could be set in motion. The probable long-term consequences of such a pattern are quite well known, as any reading of the first half of the 20th century will reveal (see e.g. Moser, 2016).

There are 2 x 3 different possibilities, some of them more likely than others, as depicted in Table 1. First, there are two possibilities regarding how radical Trump’s foreign economic and security policies will turn out to be. It is possible, in principle, that through being forced to make compromises because of checks and balances and multiple interests within the US, and by learning from experiences about the effects of decentralised tit-for-tat sanctions brought about by the international systems of cooperation, Trump will eventually moderate his stance on a number of issues. The full realisation of the stated aims of the Trump administration may require increasingly overt authoritarianism, which in turn is likely to lead to widespread resistance within the US, including in terms of possible efforts to remove President Trump from office. This scenario entails intensifying domestic conflict and ideological polarisation, already arguably rather severe. Such conflict, including in potentially violent forms, could precipitate calls to “restore order”, thus reinforcing the trend towards erosion of checks and balances and greater domestic repression of the opposition. However unlikely it may still be, a “civil war” in the US is not anymore an excluded possibility.

### Table 1 Six scenarios about the effects of Trumponomics, especially in trade

<table>
<thead>
<tr>
<th>Moderate Trump</th>
<th>Limited retaliation targeted to the US</th>
<th>Generalised “beggar-thy-neighbour” policies</th>
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<td>A</td>
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<td>B</td>
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<tr>
<td>Radical Trump</td>
<td>C</td>
<td>D</td>
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Out of the six theoretical possibilities, four seem relevant in practice. Moderate Trump is compatible with (A) double standards or (B) limited retaliation. Radical Trump will either (C) trigger limited and targeted retaliation against the US (the rest of the world will continue to abide by the rules of the WTO and bilateral and regional free trade arrangements amongst themselves) or (D) create a generalizable example to be followed, leading to widespread “beggar-thy-neighbour” policies. B and C mean that the US share of world imports (already down from 17 percent in 2000 to just 12 percent in 2013) and US share of world exports will likely fall further (already down from 12 percent in 2000 to just above 8 percent in 2013). D would provoke, at a minimum, a global recession and, at the maximum, a severe global depression.

The Trump administration has already announced a new foreign trade doctrine, known officially as the “America First Trade Policy” (see the website of the United States Trade Representative for details at: [https://ustr.gov/](https://ustr.gov/)). The United States Trade Representative website describes the aims of this policy as “ensuring that American workers are given a fair shot at competing across the globe… On a level playing field, Americans can compete fairly

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11 A mere look at the export and import figures would suggest a rapid decline in US competitiveness, but reality is more complicated. For example, Mandel (2012) argues that the decline is mostly due to the changing composition of the products traded internationally (the rest of the world is increasingly trading goods that the US does not produce) and the diminished share of U.S. GDP in global output, i.e. not due to the relative competitiveness of US firms.
and win.” It is a central policy goal to keep existing companies located within the US and that overall “companies compete to set up manufacturing in the U.S.” thus generating new jobs, tax revenues, and prosperity. However, the majority of jobs that have recently been lost within the US economy are arguably as much or possibly more due to automation than to the effects of foreign trade or out-sourcing abroad. The degree to which this new US trade doctrine of “America First” will be neo-protectionist in orientation remains to be seen, but the president has previously indicated that the US could potentially impose unilateral trade tariffs on partners that in its view are not playing fair with the US. This includes signatories to past and future trade agreements with the US who subsequently, in US perception, do not correctly fulfil their obligations under the agreement. According to the president, the US could cancel any trade agreement after a 30-day grace period during which the US would seek compliance by their trade partner. During his first few days in office, president Trump used executive powers to order US withdrawal from the Transpacific Trade Partnership agreement (TTP), to the consternation of several key trade partners, including Japan and Australia, who have been supporting the multilateral agreement.

Trade protectionism via tariffs or complicated arrangements of taxation are not the only forms of potential beggar-thy-neighbour policies, of course. Attempts to enhance external competitiveness by means of internal devaluation or tax competition can be equally harmful, albeit in a different way. A number of countries, and the EU as a whole, are keen to increase their competitiveness. The idea is to increase demand for national goods and services in the world markets – at the expense of other countries. World imports and exports cancel out. Although it is not impossible for all countries to simultaneously increase the value of their exports and imports, their overall sum is always zero. The same holds true for investments. There is no aggregate level historical evidence that corporate tax cuts would have increased the overall pool of investments. Rather the opposite seems to be true: investment rates have been declining, at least in the OECD world (if not in expanding economies such as China and India). If corporate tax cuts have a positive effect on the level of real investments in one given country, it will likely do so at the expense of other countries. Combined with measures of austerity (that may appear desirable to budget-balancers in part because of budgetary effects of the tax cuts), these kinds of downward spirals tend to reduce total effective demand regionally and, to a degree, globally. Overt protectionism would come on top of these other measures and strengthen their already significant effects.

In his first presidential address to the joint session of the US Congress, on 28 February, 2017, president Trump outlined the main elements of his administration’s new economic policy goals, revealing aspects of his budget proposals for Congressional debate and approval. The main elements of the new economic policy include: a one trillion dollar infrastructural programme (including a 25 billion dollar project to construct the Wall on the border with Mexico); tax reductions for the middle classes (but also for US corporations, and the very wealthy); a big increase in military spending (estimated at 54 billion dollars in the first year; to “rebuild” the US military, and purchase advanced weapons systems); the repeal of Obamacare (with the stated aim of reducing the costs of health insurance); and some general aims to improve childcare provision, women’s health, and promote clean air and water. (Politico Magazine 01-03-2017) Whether and to what extent any of the very ambitious spending proposals entailed in this programme will eventually attain full Congressional approval and legislative authorisation remains doubtful, given the fiscal conservatism amongst many Republicans, and scepticism and resistance amongst many Democrats in both houses of Congress.
The Trump administration is also proposing potentially far-reaching financial deregulation, accompanied by major tax cuts for corporations and the richest 1 percent of income earners (one estimate predicts that under Trump’s probable tax reform measures, the income of the top 1% of income earners would see their annual income increase by 13.5%, while average earners income would increase by only 1.8% (Navidi, 2017). Financial deregulation would annul the corrective measures and learning concerning reregulation of the financial sector (Mackintosh, 2016) that took place in the wake of the global financial crisis of 2008-9. US financial deregulation enacted now may have the further effect of impeding future global cooperation in this area.¹² On 2 February 2017, president Trump, by executive order, instructed a review of the Dodd-Frank Act, which was enacted during the Obama era to ensure that there would never be another 2008-style financial sector meltdown.

The stated aim is to make US financial companies more competitive – but in all likelihood at the expense of global financial stability. The periodic crises since the late 1970s have been part of a larger boom-bust process. The underlying super-bubble based on credit expansion and financial multiplication has grown in potential for three decades. It has continued to grow after the weak recovery from the global crisis of 2008-9; and it has been gradually assembling conditions for an even bigger crash probably in the late 2010s, at the latest in the early 2020s (an expectation outlined in Patomäki, 2010, pp. 79-80). The Trump administration’s financial deregulation policy seems determined to speed up this process, making an early large-scale financial bust more likely. The effects of financial deregulation, combined with other aspects affecting the future stability of respect for the rule of law within the US, may also have the unintended consequence of decreasing the attractiveness of the US economy as an economic “safe haven” globally.

Tax cuts for the rich may also be accompanied by a lax policy toward global tax havens that help firms and companies to avoid taxation, although the economic nationalist side of the Trump administration would also at the same time logically have an interest that companies really do pay tax in the US on their worldwide profits. Be that as it may, financialization and the growing financial super-bubble have contributed to growing inequalities across the world (by increasing \( r \) and decreasing \( g \) in Piketty’s \( r > g \)), while the growing inequalities have added to the volume of speculation (because the rich tend to consume only a small part of their extra income). For the same reason, tax cuts to the rich have also the lowest fiscal multiplier and weakest stimulating effect on the economy, thus probably aggravating the deficit of the US federal budget. The Fed can of course print more money, but not endlessly without spelling trouble.

In terms of trade policy, only (D) in Table 1 would take the world directly to a situation reminiscent of the early 1930s, while also B and C are steps in the same direction. Moreover, there is another path that may lead to the same outcome as (D). A new major global financial crash during Trump’s first term could easily trigger a further worldwide round of growing economic nationalism. It is worth stressing that “the relatively benign international political environment in 2007-2008 compared with the intense security dilemma of the inter-war years were also essential in not making a bad situation worse” (Kirshner, 2014, p. 47). Next time the international political environment will be less benign.

¹² This is however more complicated than it may first appear. The Trade in Services Agreement (TiSA) is more in line with the ideology of the Trump administration than the TTP or TTIP, and it seems that the US continues to participate in the TiSA negotiations. These negotiations are basically about deregulation (often amounting to neoliberal re-regulation) and privatization. Trump’s review of the Dodd-Frank Act is fully in line with the aims of TiSA.
Conclusions: disabling effects and the possibility of transformative praxes

The US now seems set on a course to contribute to creating the conditions for a new era of international discord, leading to the further destabilisation of the (neo)liberal “world order” that it had itself co-designed and upheld, though of course also to project and protect its own advantages, interests, and values on a world scale. The recently intensified historical tendencies of increased oligarchization of wealth and authoritarianization of power are being produced by the system itself, but threaten the stability of liberal democratic culture. Growing popular discontent with the status quo, and the rise of nationalist, populist, and authoritarian ideological and political currents, are symptomatic of rising frustration and popular anger with the established “order” (for a discussion of the two sides of Polanyian double movement, see Patomäki, 2014).

With the anticipated unintended effects of ongoing developments in the US and other parts of the world, historical preparations are now in motion that are likely to produce the next major systemic crisis, or even global catastrophe. These unintended consequences will be deeply disabling, calling into question the prevailing paradigm of (neo)liberal “world order”, including its characteristic modes of subjectivity, practices, and institutions. At present, as judged from the impressions of participants at the recent Munich security conference in mid-February 2017, there has emerged “a lack of consensus even on what a liberal order is” (Leonard, 2017). There is a growing perception, and increasing global comment, that the era of Western liberal dominance is now ending, and that a “post-Western” world order is dawning. Power and influence have diffused significantly, through processes of globalization, and economic expansion by “emerging powers”, including the BRICS nations and others, such as Turkey (Gray and Gills, 2016).

This is a time of high and increasing structural tension between the persistence of the territorially bounded and sovereign nation-state system, versus the realities of a highly transnationalized global economic system (Gills, 2000; Gills, 2011). Arguably, a Polanyian “double movement” is still in motion, but of its “left” and “right” ideological manifestations, the latter appears dominant, at least for the time being. The whole idea of a world order, however, is once again contested. The historical outcome of this global contestation, both ideologically and practically, will turn upon how states and social forces around the world will act and respond in the coming period of global history. This outcome is historically indeterminate, as reality involves complex multi-path developmental processes that can be interwoven, or contradictory in numerous ways.

Finally, in our view it is mistaken to prematurely conclude that because historical developments are not smooth and linear, and because many developments at present seem dangerously regressive or chaotic, that there is no rational (and progressive) tangential direction to world history. We claim, from a dialectical perspective, that the rational tendency is manifested in potential toward a system that is capable of increased reflexive self-regulation, in terms of wider wholes and (contested) common good, rather than limitation to actions and responses from particular (powerful) actors’ perspectives.

For discussions on how growing inequalities, associated with the post-Bretton Woods developments, corrode the rule of law and thereby the basis of democracy, see Sayer, 2016, pp. 267-84; Stiglitz, 2013, pp. 234-58. For a more general discussion on how the neoliberal world had, in effect, moved to a stage of “post-democracy” already by the early 2000s, thus paving the way for further authoritarianization of politics in the 2010s, see Crouch, 2004. For an early analysis of the relationship between globalization, hegemony, empire, and “neoliberal disorder” see Kiely, 2005.
This rational tendency may manifest itself, for example, as democratic global Keynesianism, enabling (even radical) processes of decommodification, and new syntheses in the market/social nexus. Such a historical tendency in response to the present “disorder” would constitute an emerging alternative “democratic world order”. Its emergence and consolidation are historically contingent upon new forms of cosmopolitan transformative praxis (Hosseini, Gills and Goodman, 2016). Such a process is also dependent upon the rationality of participating individual actors (cf. Bhaskar, 1993, p. 91). Thus we can anticipate the construction of new common institutions (of international cooperation and global governance) to evolve, in either evolutionary or dialectical fashion, replacing certain aspects of the authority of territorial sovereign states with more adequate (social, Keynesian, democratic) regional and global arrangements. They can be anticipated in terms of overcoming definite lacks, absences, problems, and contradictions of the world economy step-by-step – or more drastically, through many institutional transformations at once, perhaps following a future major global crisis or some form of catastrophe.

As Yeats evoked us to reflect, even as “things fall apart”, “surely some revelation is at hand”.

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Pussynomics: regression to mean
Susan Feiner [University of Southern Maine, USA]

“He’s a poor person’s idea of a rich person. They see him. They think, ‘If I were rich, I’d have a fabulous tie like that. Why are my ties not made of 400 acres of polyester?’ All that stuff he shows you in his house – the gold faucets – if you won the lottery, that’s what you’d buy” (Leibowitz, 2016).

The world knows this American president for crude sexist/sexual declarations, compulsive pathological lying, and friendships with racists, homophobes and anti-semites. So what? Plenty of liars, bigots and skirt chasers have called the White House home. Still he’s terrifying, conjuring dread as surely as the Bates Motel in Hitchcock’s Psycho. Donald Trump – salesman, TV huckster and sexual predator – triggers primitive, infantile fears. From his freebie media campaign to his policies and executive orders he fuels a fear so intense that it works through denial. The hellfire and brimstone, glitzy gaudy glamor, tough love concoction that is Donald Trump, masks fears – harbored by many, not just those for whom the economy is not working – that our beloved caretakers, upon whom we depend for our daily survival, will not deliver. What explains the appeal of a man who believes that, “if this country gets any kinder or gentler, it’s literally going to cease to exist” (Trump, 1990).

Right wing populism as fundamentalist religion

“The point is that you can't be too greedy” (Trump, 1987, p. 47).

Between 1987 and 1995 The American Academy of Sciences sponsored the interdisciplinary “Fundamentalism Project”. Studying fundamentalist religions all over the world, scholars “concluded that, regardless of the religion, fundamentalism has several commonalities”. These are:

- Men are to lead and women and children follow. Wives are to be subservient to their husbands. Often, this subservience applies to sisters toward their brothers. A woman’s role in life is to be a homemaker (Mike Pence).
- The rules of their religion are complex and rigid and must be followed. Therefore, to avoid any confusion, children of fundamentalists must be sequestered in an environment of like-minded adherents to the corresponding fundamentalist religion. Especially so in their schooling (Besty DeVos).

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There is no pluralism. Their rules apply to everyone everywhere (Jeff Sessions).

There is a distinct group of insiders and all others are outsiders. Insiders are nurtured and cared for. Outsiders are cast off and fought (Steve Bannon).

They pine for an older age and a past when their religion was pure, as largely they no longer see it as such. Often, this time never truly existed, but they have a nostalgic view of a Utopian past and they long to acquire it (Make America Great Again).

Fundamentalist religion, the program of Trump, and the regressive economics he promotes are barely distinguishable.

Two trends over the past 30 to 40 years puzzled many social scientists. Wilkinson and Pickett (2010, 36-37) discuss the contradiction posed by surveys that found rising levels of self-esteem across the US population simultaneous with other studies that found heightened experiences of anxiety and depression. Why/how could people with strong self-esteem be increasingly troubled by anxiety and depression? On the face of it these trends are contradictory. But distinguishing between kinds of self-esteem resolves this conundrum.

Digging into the data unearthed what is now deemed "unhealthy self-esteem", a pumping up of one's self image as a mode of protection from the "social evaluative threats" generated by rising levels of social inequality. People with healthy self-esteem exhibit "happiness, confidence, (are) able to accept criticism, an ability to make friends, and so on". In contrast, those with unhealthy self-esteem "showed tendencies to violence, to racism, were insensitive to others and were bad at personal relationships". Unhealthy self-esteem – sometimes labeled narcissicism, chuffing one's self up as a defensive strategy to counter a sense of weakness – explains how rising self-esteem can coexist with rising levels of anxiety and depression.

Donald Trump’s narcissism triggers his admirer’s unhealthy self-esteem. It's not simply his narcissism that drives his acting out (middle of the night tweets about SNL, Meryl Streep or Snoop Daddy). In addition, his narcissism generates an energy loop... his behavior cons many to into seeing themselves in him. This sets up a chain reaction of back and forth reflections from Trump to supporters to Trump. Narcissism and fundamentalist religions feed each other too. As Wilkerson and Pickett demonstrate, the dramatic increases in inequality fuel the many social dysfunctions that are associated with unhealthy high self-esteem.

Skinheads, white nationalists and the multitudes of hate groups aligned with Trump are not only the product of long simmering resentments, these movements are also the result of the explosive income inequality that marks the US political economy.

Consider too the ways that dualistic thinking, anti-pluralism, and cognitive rigidity fuel both right wing populism and religious fundamentalism. Dualistic thinkers are naïve. The “proper” authorities know everything, “knowledge is received truth. It is facts, correct theories, and right answers” (Kloss, 1994). Except when facts and theories challenge deeply held certainties... for those occasions there are “alternative facts” and the “lying media”.

For college professors, dualistic thinkers are among the most difficult students. Not because they misbehave (quite often they are passive and obedient), but because they are so unwilling to consider multiple, alternative interpretations or modes of analysis. Virtually all scholars of student achievement recognize that intellectual growth requires letting go of the black/white, right/wrong, true/false view of knowledge. But hanging onto dualism is made easier by conformity to religious fundamentalism, since the Church (the one true, right
Church) constantly reinforces this mode of thinking. Change and growth are limited by dualism.

Trump’s rightwing economic populism unites fundamentalism, narcissism and dualism to create a powerful pull to a dismal past. In the longed for bygone age fathers did know best and education comprised transmission of undisputed facts. Because the one right way of knowing was so obviously correct, violence toward unbelievers – outsiders by definition – was sanctioned by the spurious, imagined “purity”. We’ve known for a long time that economic precarity and soaring inequality generate atavism. “Necessitous men are not free men. People who are hungry and out of a job are the stuff of which dictatorships are made” (Roosevelt, 1944).

Tower trash

“Owning such beautiful buildings… The Empire State Building, 40 Wall Street, there are a couple of them that are just really incredible buildings. Forty Wall Street is probably the most beautiful tower in New York” (Trump, accessed March 18, 2017).

Neoliberalism worships avarice. Anything that impedes profit maximization is bad, everything that facilitates financial gain is good. Damn the human costs of austerity and deregulation. As Galbraith puts it, “Men, it is assumed, act in economic matters solely in response to pecuniary compensation or, as the only alternative, to force” (1967 [2007], 163). That’s what makes grabbing pussy the purrfect analogy for Donald Trump’s Mad Max economy of rape, pillage and plunder. Run an oil pipeline thru sacred Native lands? Do it. Sell National Parks to the highest bidder? Why not? Wreck public schools? Go for it. Zero out federal support for the arts? Happily. End food subsidies for the elderly and school aged kids? But of course. Actions that initiate flows of dollars to Trump’s family and friends cause good things to happen.

It’s not difficult to see that monetary incentives are not far removed from corporal punishment. “Compulsion and pecuniary compensation exist in varying degrees of association with each other” (Galbraith, 1967 [2007], 167). This atavistic view of work is motivated by fear of punishment via material deprivation. Intrinsic motivation is an oxymoron. Work, connive, collude… get wealth… buy fancy, glitzy, sparking stuff… flaunt success in the competitive struggle. Joel Grey knew what drove high ranking Nazis, “Money makes the world go round” (Cabaret, 1972). It’s no different for Trump.

The cruelty that is the flip side of money worship was captured brilliantly by Jimmy Breslin when he wrote about the full page ad placed by Trump in every NYC paper following the sexual violene in Central Park.

“Mayor Koch has stated that hate and rancor should be removed from our hearts. I do not think so. I want to hate these muggers and murderers. They should be forced to suffer and, when they kill, they should be executed for their crimes… Yes, Mayor Koch, I want to hate these murderers and I always will. I am not looking to psychoanalyze them or understand them, I am looking to punish them… I no longer want to understand their anger. I want them to understand our anger. I want them to be afraid (Breslin, 1989).
Losers can’t (and no one should let them) avoid their punishment. And punishment should always be as extreme as possible. For the millions swept up by the prison/industrial complex, punishment is literal. For the millions more working at or near the minimum wage, punishment is deprivation. For the tens of millions affected by Trump’s budget, punishment is unflinching austerity. The flip side of money worship is deliberately imposed suffering. Sadism as national policy.

Forget art for art’s sake or learning for learning’s sake. Everything is reduced to a financial calculation. If it doesn’t directly inflate the bottom line, cut it. With religious fundamentalism this bankrupt view of human motivation buttresses economic populism, “hailing” subjects, seducing the insecure to celebrate Bentham’s “felicific calculus of pain and pleasure”, even as that calculus imposes pain on its ardent supporters. National policy of sado-masochism.

Are we family?

“Happy families are all alike, every unhappy family is unhappy in its own way” (Tolstoy, 1877 [2004], p. 1).

A president, even one as unpresidential as Donald Trump, is the nation’s metaphorical father. Trump aligns perfectly with Lakoff’s (1996) “strict father” model of polity as family. The trademark “You’re Fired!” reeks of tough love. Daddy Trump teaches children – everyone less rich than him – self-reliance and self-discipline through punishment. In Lakoff’s view, strict father families and nurturant parent families see society through opposing world views.

<table>
<thead>
<tr>
<th></th>
<th>Strict Father Families</th>
<th>Nurturant Parent Families</th>
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<tbody>
<tr>
<td>Morality</td>
<td>Evil is all around us, constantly tempting us. Thus, the basis of morality is strong</td>
<td>The basis of morality is in understanding, respecting, and helping other people, and</td>
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<td></td>
<td>moral character, which requires self-reliance and self-discipline. The primary vices</td>
<td>in seeking the happiness of one’s self and of others. The primary vices are</td>
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<td></td>
<td>are those that dissolve self-discipline, such as laziness, gluttony, and indulgent</td>
<td>selfishness and anti-social behavior.</td>
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<td>sexuality.</td>
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<tr>
<td>Child</td>
<td>Children develop self-discipline, self-reliance, and other virtues primarily through</td>
<td>Children develop morality primarily through interacting with and observing good</td>
</tr>
<tr>
<td>Development</td>
<td>rewards and punishment, a system of “tough love”. Since parents know the difference</td>
<td>people, especially good parents. Punishment is necessary in some cases, but also has</td>
</tr>
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<td></td>
<td>between right and wrong and children still do not, obedience to the parents is very</td>
<td>the potential to backfire, causing children to adopt more violent or more anti-social</td>
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<tr>
<td></td>
<td>important. Moral development basically lasts only as long as childhood; it’s important</td>
<td>ways. Though children should, in general, obey their parents, they will develop best if</td>
</tr>
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<td></td>
<td>to get it right the first time, because there is no “second chance”.</td>
<td>allowed to question their parents’ decisions, to hear justifications for their parents’</td>
</tr>
<tr>
<td>Justice</td>
<td>The world may be a difficult place to live, but it is basically just; people usually</td>
<td>rules, and so on. Moral development is a lifelong process, and almost no one is so</td>
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<td></td>
<td>get what they deserve. The difficulties in one’s life serve as a test to sort the</td>
<td>perfect as not to need improvement.</td>
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<td>deserving from the undeserving.</td>
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One of Trump Jr’s classmates at The University of Pennsylvania offered this vignette of his father.

“There were quite a few students standing around watching, trying to catch a glimpse of the famed real estate magnate,” according to Melker. “Don Jr opened the door, wearing a Yankee jersey. Without saying a word, his father slapped him across the face, knocking him to the floor in front of all of his classmates. He simply said ‘put on a suit and meet me outside,’ and closed the door” (Melker 2017).

A unique unhappiness if ever there was one.

Picture instead a different mode of family interaction. Nurturant parent families “revolve around every family member caring for and being cared for by every other family member, with open communication between all parties, and with each family member pursuing their own vision of happiness” (Lakoff, 1996). Families living with economic security are much more likely to develop nurturant styles of being.

Trumponomics is focused on undoing economic security and amplifying pressures to restore strict father families. Wiping out the EPA, public schools, Obamacare, Social Security, Medicare, Medicaid, libraries and all manner of other civil institutions, undercuts the stability and security of all but the richest families. Families regress. However unhappy they may have been, they will surely become less happy, each in their unique way.

The atavistic pull at the center of Trump’s attraction is revealed by a gendered reading of the images and metaphors which animate it. The following passages, from Lakoff’s Moral Politics (1996, pp. 5-6) illustrate the intimate connection between visions of family and economic policy. Lakoff riffs on conservative columnist William Raspberry’s take on Washington DC’s budget crisis:

“The government of the District of Columbia is reeling from a newly discovered budget shortfall of at least $722 million and there is growing talk of a congressional takeover of the city.”

After an example of spending he considers questionable, Raspberry says,

“What is about to do us in... is the poor but compassionate mother with a credit card. To put it another way, a huge amount of the city’s stupendous debt is the result of the local government’s effort to do good things it can’t afford.”

He then gives a list of examples of good things the city government wants to do and which he thinks it can’t afford, and (Raspberry) finishes the column as follows:

“But a good chunk of the underlying problem is the compassionate mom’s attitude that says: ‘If it’s good for the kid to have, then I ought to buy it—and worry later about where the money will come from.’ Well, Mom not only has reached her credit limit: she’s in so much trouble that scrimping and saving won’t solve the problem. She’ll need a bailout from Congress. But then, she has to learn to say no—not just to junk food but to quality cuts of meat she can’t afford.”
A radically different reading is possible.

“One could have observed that Washington, D.C., must have city services beyond its population to serve the large number of relatively well-off civil service workers, lobbyists, and others who live in the wealthy suburbs but work in town. One could also have mentioned that it is the responsibility of Congress to see that the city is maintained properly and that it lives by a humane standard, indeed that it should set a standard for the country. One could then apply the metaphor of the government as parent to Congress, seeing Congress as a deadbeat dad, refusing to pay for the support of his children, the citizens of Washington, D.C. One could then have drawn the moral that deadbeat dad Congress must meet his responsibilities and pay, no matter how tough it is for him.”

Conclusion

Economies and families are inextricably tied in our everyday lives and in our deepest unconscious. Primitive impulses toward exclusion, shame, and painful discipline are unleashed as families crack under the economic pressure of stagnant wages, declining benefits, deteriorating public services, and rising inequality. Pander to the rich. Destroy the social fabric. Adults, suffering the pain of harsh austerities long for the comfort of their imagined, culturally scripted old fashioned families. Such a misdirected wish. Strict-father families and the ethos of punishment are not the stuff of fulfilling household economies. Nurturant household economies require policies that solicit care from all according to their abilities and deliver care to all according to their needs.

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Trump’s contradictions and the future of the Left
Boris Kagarlitsky [IGSO¹ and MSSES², Russia]

The first 100 days of Trump’s presidency did not resemble the honeymoon normally enjoyed by newly elected leaders of the United States. The severity and aggressiveness of the debate was unprecedented. Liberals threw at Trump all of their hatred, while the conservative public – all of its delight. Opinions in Russia are split roughly along the same lines as they are in America.

The situation on the Left is much more complex. While some repeat, like well-trained parrots, the talking points of liberal propaganda about Trump’s agenda being racist and homophobic, passionately quoting the CNN and the New York Times, the others, exhibit at least some schadenfreude about the disintegration of Democratic Party, and the collapse of free trade agreements. However, even in the last case, the discussion, with a few exceptions, does not go beyond the question of whether we like or do not like the 45th president of the US and his decisions.

Assessments of Trump’s personality, and even actions, are the last thing we need if we are to understand the perspectives of his term as a president of the US. We would be much better served by an analysis of the processes unfolding before us. Meanwhile, the decisions the new president has made so far are clear evidence of the contradictory character of his policies. Trump and his entourage, perhaps, have not realized the extent of the problem yet, but the future course of events will force them to do so.

The wavering of Senator Bernie Sanders, who expresses approval of the decisions of the White House one day, while unleashing a fierce criticism the very next, is revealing in its own way.

In fact, a number of actions and statements by Donald Trump put him on par with the anti-globalists who protested in Seattle in 1999. But his other decisions and statements unequivocally portray the president as not just a conservative, but as an ardent supporter of the free market and liberal economic doctrines.

On the one hand, Trump cancels Trans-Pacific Partnership agreement and insists on revising NAFTA, the embodiment of neoliberal principles. He berates NATO, talks about Canada-style public health insurance, calls for lower drug prices and even pushes through the congress six

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weeks parental leave for women, something never achieved by any Democratic administration with the reputation of being pro-feminist. The president meets with trade unionists at the White House and discusses joint efforts to create jobs. But on the same day, Trump cancels restrictions and regulations governing the activities of the major Wall Street banks, while negotiations on the price control of medicines turn into promises to lower taxes for manufacturers.

The nomination of Betsy DeVos as a head of the Department of Education was a complete scandal. And not only because of her conservative views, but also because the lady who was put in charge of the public schools, was in a sharp conflict with the professional community – how does this fit in with the promise to return power to the people?

It is most likely, though, that from Trump’s point of view, there is no contradiction. Yes, Betsy DeVos and teachers experience mutual hatred, but on the other hand, she is in agreement with the most ignorant part of parents, who are confident that the less children learn in school, the better it is for them.

President, like most of his voters, does not believe in global warming, but he believes in free markets and low taxes. At the same time, he believes that the US domestic market should be protected from unfair foreign competition. Simply speaking: liberalism for “our own” protectionism from the “strangers”.

This is exactly how American capitalism was developing in the first third of the 20th century.

Alas, the times have changed. Transnational capital, formed by the end of the twentieth century, has changed the rules of the game not only globally, but also in the domestic market. These new rules brought the world to the current systemic crisis. The collapse of the neoliberal world order is a spontaneous and natural process, generated by its own self-destructive logic, and not by the ideological views of anti-globalists or Trump. Ironically, globalization by weakening and destroying domestic markets, the public sector and the welfare state undermined global demand. Weaker states in the long run mean that we are going to experience not more economic growth and faster expansion of international trade, but on the contrary we are ending up with global stagnation. This process of decay began long before the arrival of the current President in the White House. The victory of Trump is itself a consequence of the crisis, which has already fully unfolded and penetrated into all pores of the society. To the dismay of liberal intellectuals in London, Moscow and New York, this decay is irreversible. Either you change the system or things will only get worse, whether you like it or not. In 2016, politics finally synchronized with the economics.

The principal difference between the 45th US president and his liberal opponents is not that he does not believe in globalization, but that he is aware of its collapse, and therefore does not attempt to save the crumbling system, but seeks to build a new policy which would take the new reality into consideration. The question is: which direction this policy will take.

If the collapse of the old system is, to some extent, a natural process, at least at the economic level, the formation of a new social order does not happen automatically. As a consequence of his intent to reconsider the rules of the game, Trump is faced with the need to introduce his own positive program. And here he inevitably faces the objective contradiction between the interests of different social and economic groups which see the necessity of change.
Consistent implementation of protectionist policies intended to restore the internal market will not be effective without measures aimed at regulation and reconstruction of the US economy. One may call for re-industrialization of the United States on the basis of market principles, but the nature of these principles objectively prevents them from resolving this problem. If the situation were different, not only would the problem have been already solved to a certain extent, but also Trump would probably not have had a chance to occupy the Oval Office at the White House.

 Attempts to balance the budget by increasing import duties, while reducing taxes to encourage production without reducing profits of financial corporations and raise wages of workers without affecting the interests of entrepreneurs, sooner or later will lead the US president’s policies to a logical impasse. It will be impossible to come out of it without making a political choice in favor of one party or another. Contradictions are only worsening as the government is forced to make decisions on matters of foreign policy, provoking disagreements and crises within the administration.

 In fact, the contradictions of Trump’s policy reflect the contradictions within the broad cross-class coalition that brought him to the White House. No matter what the liberal pundits say, these were the votes of workers who brought him the victory. Not the so-called “white men”, but the working class, who openly and, largely, in solidarity, made a stand against the Washington establishment. To a large extent his election campaign reproduced the ideas and slogans of the Left. The Republican candidate was supported by farmers, clerks and provincial intelligentsia. This really was an uprising of the forgotten and resentful provincial America against the spoiled people in California and the cosmopolitan officials from Washington, who comfortably exploit cheap labor of illegal migrants, against the liberal elite, who turned their back on their own country long time ago.

 It’s not surprising that we’re seeing a rise of the working class. But a substantial part of the bourgeoisie is also unhappy with the current situation. Donald Trump is not a worker or a farmer. He and his entourage are very typical representatives of a medium size American enterprise which is tied to the domestic market and is in conflict with transnational corporations.

 All groups that have supported him were equally offended and humiliated by the policies pursued by the metropolitan liberals and were interested in reconsideration of these policies. They all need protectionism. But at this point their unity ends. The interests of classes and groups, who led Trump to the White House, do not coincide in the positive part of the program.

 Trump’s attacks on political correctness are by no means a manifestation of his personal feelings, his lack of restraint and rudeness; it’s a deliberate strategy to consolidate the social groups that have suffered under the dictatorship of political correctness. No matter how different they are, all of them have been hit financially, losing incomes, jobs and revenues.

 Trump’s propaganda is effective, not because, as intellectuals believe, it resonates with the feelings and prejudices of the people, but because it reflects their real interests, even if expressed in a distorted form. Even Trump’s statements that seem ridiculous and anecdotal, such as the promise to build a wall to fence off Mexico, are not totally without meaning. Building the wall would create hundreds of thousands of jobs, not only in the US but also on
the opposite side of the border. In fact, it’s a Keynesian project, even if fairly absurd from the standpoint of ordinary logic.

Of course, there is nothing progressive about Trump’s ideology, but this is not about ideology, which is not so much a factor of social mobilization, as a tool for manipulation. The defeat of financial capital, no matter who brings it about, would open a new era in the development of Western society, inevitably strengthening the working class, and reviving its organizations. The change is under way, not only because of the political and social logic, but also due to the fact that all possibilities of maintaining the current neo-liberal model of capitalism have been exhausted. If the left is unwilling or unable to fight, it will be the right-wing populists like Donald Trump in the US or Marine Le Pen in France who strike the fatal blow against it. Some people will be outraged at the “prejudice” and “irresponsibility” of the working class, but the real moral responsibility would still lie with the leftist intellectuals, who, in times of crisis, will have demonstrated their class position by advocating and defending the interests of financial capital.

Trump formed a broad coalition for change, something leftists used to talk about for decades but never achieved in practice (and did not even try seriously to achieve). This is what populism is about and this is what made Trump’s victory possible in the first place.

The ability to unite a broad cross-class coalition around a single leader or a party has always been the main source of strength for the populist movements. However, the objective contradictions of class interests have invariably been their stumbling block. The long-term success, and often the physical survival of populist leaders have always depended on whether they were able to, by changing the configuration and maneuvering, prevent the collapse of the block they lead. Would the leader be able to reshape it on the go, making a choice in favor of the correct forces at the right moment? Sooner or later the necessity will arise not only to side with one part of his supporters against the other, but also to sacrifice many of his political friends, and sometimes even the interests of his own class.

Donald Trump will inevitably face such choices. Not just a place of 45th president in US history, but also his personal fate, which has potential to be more than dramatic, depends on when, how and for whose benefit he will make these choices. The political and institutional crisis of American society has gone too far. The country is split, and the old order, for the restoration of which the Liberals are clamoring, is not only impossible to restore, but receives blow after blow every day. And the organizers of the liberal opposition campaign are themselves smashing the very public institutions, which they previously have relied upon for their power.

In order to get rid of Trump, they need a coup. Whether this scenario will be tried in the hard (force) or soft (impeachment) variant, it would be a major blow to the institutions of American democracy. And it is exactly the anti-Trump campaign of the Liberals which is creating preconditions for massive populist mobilization of the low class forces that were for decades alienated from politics and rediscovered their strength through voting Trump into the White House.

It can be assumed with good reason that the historic mission of Trump is the destruction of the existing liberal order. The positive work will be performed by other politicians and social movements. But these movements and leaders will only emerging in the struggle that is unfolding today. And how that happens, depends on the fate of Trump and the reforms
initiated by him. In that sense the really important struggle is not about supporting Trump or trying to bring him down but about influencing the course of change initiated by the new administration and fighting for progressive reforms whether they are supported by the White House or opposed by it. A new progressive agenda will be formed by grass-root struggles reflecting the practical needs and interests of working people. And this agenda has nothing to do with the ideology of politically correct liberalism.

Institutional crisis, undermining the existing two-party system in the United States and the dominance of the Washington establishment, creates prospects for the left to participate in serious politics. The sudden success of Bernie Sanders in the primaries in 2016 demonstrated the possible scale of the opportunities. But the Left will only be able to use these opportunities on one condition – if it does not allow the Liberal circles to transform them into political extras fighting to protect the dying order. Otherwise, they will go to the bottom together.

This struggle is not only about the future of America, it dramatically affects the rest of the world, creating new dangers, but also impressive new opportunities for social change in many countries. The more the United States becomes involved in solving its own domestic crisis, the more freedom to act will have anti-establishment political forces elsewhere. But which forces will gain from these new conditions? If the international left wants to win the day, it has to reshape itself dramatically, disconnecting itself from the culture of liberal political correctness and returning to the old principles of class struggle based on real practical interests of the masses.

This is the only way to make the Left great again.

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Resume

This article focuses on Trumponomics from the perspective of firm governance. It argues that Trump is not interested in economics because the discipline does not offer a useful guide to his kind of management. On the other hand, it questions, using German stakeholder management as a comparative case, whether Trump’s views of management, imbibed from his environment, can effectively restore prosperity to white middle class Americans living in rust belt communities. The argument is historical, the conclusion contemporary.

Trumponomics and economics

George Stigler observed that Donald Trump knows no economics, (which is a slight exaggeration, since the President claims a degree in economics, but true conditionally nonetheless, because he is not an economist by long-time practice and so does not have an economist’s perspective). Few, however, would suggest that Trump does not understand at least a particular kind of management. MSNBC invited him to address students at his alma mater, the Wharton School, on January 2, 2008, to present management ideas expressed in a book written with Bill Zanker, entitled Think Big and Kick Ass in Business and in Life. Brian Halligan, founder of Hub Spot marketing, who attended the session and took notes, summarized with comment ten management lessons that Trump outlined:

1. Work Hard – This is a platitude uttered by every speaker at every event like this, but the Don gives this more than the usual lip service. He basically said that everyone he knew that made a lot of money and was ultra successful worked seven days a week…; they should be prepared for 80-hour weeks for a long time.
2. ‘Love’ What You Do – He discouraged the audience from joining or switching to a ‘hot industry’ (i.e. hedge funds) or from going into consulting in favor of getting involved with an industry you love…, even if that industry is not currently doing well as a whole. His message was that you will perform so well in your imperfect industry that you will …end up being a star in the top 1%…. He thought the pay in the top 1% of a crappy industry (in a job you love) would top the 50th percentile in a hot industry (in a job you loathe).
3. ‘Know’ What You Do – Whatever industry you are in and whatever role you play in that industry, work hard to become a world class expert in it. For example, if you are a marcom manager in a security software company, he suggested that you ought not just focus on getting good at seo [search engine optimization] and email marketing campaigns

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horizontally, but that you ought to become an expert in that security industry yourself, so that you can communicate with all levels of people about the technology simply, so that you can have detailed conversations with analysts, so that you can write credible blog articles, so that you can explain the future competitive dynamics to potential investors, etc.

4. Luck – According to Don, ‘The harder I work, the luckier I get.’

5. Education – A huge advantage that is expensive in the short run, but cheap in the long run.

6. Management – Donald fought the platitude pattern and said ‘You want to be smarter than your people’. He thought the notion that you should hire people smarter than you was a poor one.

7. Persistence – He credited his success and the demise of many of his competitors to being patient and persistent over long periods of time to wait out market fluctuations.

8. Negotiation – Always do it face-to-face…, so you can read the other person’s body language.

9. Middle men – Donald is not a fan of middle men who do not add value and who extract outsized returns. … There are so many industries that have middle men filled with old boys clubs that take money out of your pocket. If you want a good example, try leasing some office space or dealing with a technology ‘analyst’.

10. Marriage – Marry someone who understands #1 above and make sure to get a prenuptial agreement….

Classical economics, spawned in an age when the UK was still largely proto-industrial and a forest of small and middle-sized firms, invented the invisible hand to assure consumers that open competition in free markets would serve the public good. Since poor management automatically fails in the firms that go under, the invisible hand regulating free markets guarantees the development of good management. The dictum of the invisible hand of market discipline became the folklore of US political wisdom and the guiding principle of economics. Markets, not management, were the focus of classical economic’s investigation.

In the 20th century, the “visible hand” of firm governance, in Alfred D. Chandler, Jr’s apt phrase, replaced the invisible hand of market discipline (Chandler, 1977). This led to a separation of ownership from the management, what I called “managerialism” and defined in 2009 as

“What occurs when a special group, called management, ensconces itself systemically in an organization and deprives owners and employees of their decision-making power (including the distribution of emoluments) – and justifies that takeover on the grounds of the managing group’s education and exclusive possession of the codified bodies of knowledge and know-how necessary to the efficient running of the organization” (Locke, 2009, 28).

Chandler and Redlich in 1961 described the managerial hierarchies that emerged in huge multifunctional firms:

“The centralized coordination, evaluation, and planning for the diverse activities of a large number of sub-units which often carried out several different functions of production, distribution, and transportation within a single, purely private enterprise, were something new in economic history. Such needs brought the managerial enterprise into being. The new enterprise
could not run efficiently without formal internal organizations. They required the generation of internal operating, financial and cost data. Only through a flow of internal impersonal statistics could control of these large enterprises be maintained” (Chandler and Redlich, 1961, 5).

The new managerial hierarchy diversified. Engineers on the shop floors and in the manufacturing divisions of M-form corporations made artifacts. Top management, in which controllers trained in accounting, increasingly replaced the engineers and thought about money, that is, about constantly improving return-on-investment. The controller (today the Chief Financial Officer) became the board of director’s indispensable man. He was generally a vice president in the company, with direct access to the chief executive. His function made him a fount of information for policy decisions of a financial, technical, and/or commercial nature. He also had an instrumental role in policy implementation once decisions were taken.

These developments and their consequences drew public attention. In 1932 Adolf Berle and Gardiner Means, in The Modern Corporation and Private Property, described the role of management as a functional caste in executive circles; Simone Weil about the same time (1933) recognized that the separation of ownership from control had created a new “oppressive” class, as opposed to the older idea, derived from Marx, of the bourgeoisie as an “exploitive” class (Grey, 1996, 597); James Burnham’s The Managerial Revolution appeared in 1937. By World War II the management caste became, to use Heinz Hartmann’s words, “a fourth production factor… a strategic variable for the development of the firm” (Hartmann, 1963, 113). The emphasis at the top was on financial outcomes.

Concurrently a new management science emerged. A lot has been written about this subject. Suffice it to say that up to the 1930s the study of management focused on firm practice, but the operational difficulties encountered in the war brought scientific methods into the management equation (Locke, 1989, 1-29, Khurana, 2007, 233-290, Locke and Spender, 2011, 10-15). The reference is to science, not to scientists, for it was not just a question of intelligent men and women helping out, but rather of their deploying science’s methods to solve unprecedented strategic planning, logistics, and operation problems. Operations research (OR) projects drew on statistical and mathematically informed techniques, such as queuing and transportation theories that were particularly suited to maximizing efficiency in large-scale military operations.

During the Cold War the use of science in government-affiliated OR agencies expanded. In 1946 the US Army Air Force funded a new think tank, the Rand Corporation, to help solve operations problems. In 1947, George B. Dantzig and his Rand associates developed the simplex linear programming algorithms for decision-making. The procedure utilized modern mathematics (vector algebra, matrix theory, symbolic logic) and statistical techniques in an effort to take the guesswork out of decision-making.

Since mathematics and scientific methods prevailed in them, departments of industrial administration, especially in engineering institutions, pioneered the work in higher education. The Case Institute of Technology in Cleveland started the first operations research unit at the urging of industry (with financial support from the Chesapeake and Ohio Railroad Co. and the US Air Force). The institute organized a national conference in November 1951 on OR in business and industry attended by 150 people from all over the country (Page, 1952).
If neoclassical economists still ignored the subject of management, OR’s science impressed them, because they had a problem in their own discipline. Since its birth in the late 19th century, it aspired, as it still does today, to become a prescriptive science; consider León Walras’ attempt to make it a “mathematical science”. (Elements of Pure Economics, 1874) In 1944 John von Neumann and Oskar Morgenstern in the foreword to Theory of Games and Economic Behavior observed that after decades of effort they had failed. They wrote:

“The concepts of economics are fuzzy, but even in those parts of economics where the descriptive problem has been handled more satisfactorily, mathematical tools have seldom been used appropriately. Mathematical economics has not achieved very much” (Neumann and Morgenstern, 1944, Introduction).

Economists post World War II came to believe that the new OR scientific toolkit would make the discipline a prescriptive science. Immediately post war, after working at Rand, Kenneth Arrow used it in his work on Rational Choice Theory. His book Social Choice and Individual Value (1951) was the “first real classic” on what “is now taken as a given in economics and has spread out into many neighboring disciplines” (Bellah, Introduction 2000, 7). The neoclassical economists Joseph Dorfman, Paul Samuelson, and Robert Solow applied linear programming to their subject (Dorfman, Samuelson, and Solow, 1958). In 1954, Kenneth Arrow and Gerard Debreu announced that they had achieved a mathematical solution of general equilibrium, “the theoretical core of neo-classical economics,” which Edward Fullbrook states “has become the central showpiece of academic economics ever since” (Fullbrook, 2003, 5; Arrow and Debreu, 1954).

Managerialism also affected the economists’ views about the nature of the firm. Susan Holmberg and Mark Schmitt call this theoretical development the Milton Friedman Doctrine:

“[Friedman ] wrote in 1970 that ‘a corporate executive is an employee of the owners of the business [i.e., the shareholders]; he has direct responsibility to them as his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible, without breaking the law or cheating people.’ … Michael C. Jensen and William H. Meckling codified Friedman’s argument with their seminal 1976 article, ‘Theory of the Firm’. The purpose of corporate governance, they argued, is about finding ways to align the incentives of shareholders (whom they referred to as ‘principals’) and executives (‘agents’ of the shareholder owners). This theory enraptured economics departments and business and law schools for decades and profoundly shaped how corporate officers, shareholders, taxpayers, policy-makers, and even most Americans think about the roles and responsibilities of corporations” (Holmberg and Schmitt, 2016, 1-2).

Because of the value their performance added to the firms they managed, CEOs’ high salaries were worth it.

If neoclassical economics borrowed so heavily from OR methodologies, why would managers not find economics useful? The answer is that the traffic between OR and economics was a one way street; economics borrowed OR science methodologies, but despite taking on its scientific toolkit, the discipline did not subsequently succeed prescriptively, as I noted in
chapter two ("The New Paradigm Revisited") of my book Management and Higher Education Since 1940 (Locke, 1989), and as repeatedly attested to in the blog and articles of the Real-World Economics Review.

Nor for similar reasons could managers benefit from the Milton Friedman Doctrine. Holmberg and Schmitt noted that the doctrine’s prescriptive value was questioned “at the 2013 annual meeting of the Allied Social Science Associations [when] the French financial economist Jean-Charles Rochet in the keynote address… skewered the very foundation of pay for performance. Cornell Law School professor Lynn Stout calls ‘shareholder value a myth’ – the idea that corporations exist for shareholders and no one else. Rochet told the conference: ‘Everyone knows that corporations are not just cash machines for their shareholders, but that they also provide goods and services for their consumers, as well as jobs and incomes for their employees. Everyone, that is, except most economists, [for whom] shareholder primacy has never been challenged in a serious way” (Holmberg and Schmitt, 11).

Holmberg and Schmitt continued, citing and quoting Lucian Bebchuk and Jesse Fried’s earlier book, Pay Without Performance (2004), “…that executive pay could not even be said to be based on stockholder-owners subjective appreciation of executive performance. They (Bebchuk and Fried) wrote that skyrocketing executive pay is the blatant result of CEOs’ power over decisions within US firms, including compensation” (quoted in Holmberg and Schmitt, 12). It reflected director, not stockholder, primacy. (On the subject also see Bainbridge, 2006)

Accordingly, why should Trump or any active manager pay attention to the Milton Friedman Doctrine if economists have failed to bring economic thought into line with developments in firm governance. As Gunnar Eliasson concluded:

“Therefore, why should Trump or active management pay attention to the Milton Friedman Doctrine if economists have failed to bring economic thought into line with developments in firm governance. As Gunnar Eliasson concluded:

“The management teacher as well as the economic theorist needs a realistic model of the firm, [but] no good model of the firm has been created. The moral is… that we have excellent firms, not thanks to but despite management teaching” (Eliasson, 1998, 9).

Trumponomics and social prosperity

The management principles Trump evokes in Think Big and Kick Ass are those for self-enrichment reminiscent of robber barons during the Gilded Age. In his election campaign Trump promised to use his knowhow to restore prosperity to the dispossessed white middle class in rust belt communities. Will his management principles, if they served him and other billionaires well, do the same for the white middle class communities? This is a question economists seldom ask since they exclude management systems and methods from their analytical purview. It is also a question that Trump has not asked, inasmuch as he attributes the impoverishment of industrial America’s white middle class to NAFTA and other trade agreements, misguided environment policies that destroy jobs, e.g., in coal-mining regions, and tax provisions that encourage corporations to move manufacturing off shore. If economists and Donald Trump ignore the management question, historians have not, and for good reason.

History involves specificities that differ in time and place. The specific time referred to here in US history is when in the 1980s and 1990s the old staple mass production industries
(automobiles, steel, rubber, consumer electronics, and their suppliers) succumbed to Japanese competition. Trump is a great believer in what the Germans call the Führerprinzip (leadership principle), which he thinks is the key to success. A good leader is needed to harness the will and energy of the people in the enterprise and the nation, for “without leadership,” he says, “organizations slowly stagnate and lose their way... Leaders influence behavior, change the course of events and overcome resistance and therefore leadership is regarded as crucial in implementing decisions successfully.”

But in the timeframe under consideration, American director primacy forms of management did not protect American mass production industry and the blue collar populations it succored nearly as well as the stakeholder forms of management that had developed in Germany (and other northern European countries) after the war as alternate forms of firm governance (Albert, 1993).

That the German story is radically different from the American can be demonstrated through comparative analyses of the top twenty firms in each country, ranked by revenues (2012):

**USA**

1. Exxon
2. Wal-Mart
3. Chevron
4. Conoco-Philips
5. General Motors
6. General Electric
7. Berkshire-Hathaway
8. Fannie Mae
9. Ford
10. Hewlett-Packard
11. AT&T
12. Valero Energy
13. Bank of America Corp
14. McKesson
15. Verizon Communications
16. JP Morgan Chase & Co
17. Apple
18. CUS Caremark
19. IBM
20. Citi Group

(Source: Stahl, 2013, 59)

**Germany**

1. Volkswagen
2. E.ON
3. Daimler
4. Siemens
5. BASF
6. BMW
7. Metro
8. Schwarz
9. Deutsche Telekom
10. Deutsche Post
11. Aldi Group
12. BP Europa SE
13. Robert Bosch
14. RWE
15. Rewe Group
16. Edeka Group
17. Audi
18. Thyssen Krupp
19. Deutsche Bahn
20. Bayer

(Source: Ibid., 61)

Some firms on each list are classifiable under the same rubric, e.g., retail giants (in the US, Wal-Mart and McKesson; in Germany, the Aldi and Edeka Groups). Others are famous oil
and energy firms, mostly on the US list. But there are two big differences between the lists that are of interest here.

**Financialization**

One is that among the top twenty US firms there are many drivers of financialization (Berkshire-Hathaway, Fannie Mae, Bank of America, JP Morgan Chase Co, Citi-Group, and GE Financial), or US firms that are the creation of financialization (Hewlett-Packard: IPO 1957; Apple: IPO 1980). On the German list, there are none, i.e., not one is a financial institution, not one is a stock market IPO creation.

The financialization referred to is not limited to the concentration on financial outcomes that had become the preoccupation of top management in large firms, although that is part of it. Rather it is the change during the last three decades of the 20th century from viewing a business as a vehicle for earning “returns on investment... based on the value created by productive enterprise” to viewing a business “as assets to be bought and sold for maximizing profits through financial strategies” (Ball & Appelbaum, 2). This is the world that Donald Trump knows and in which he operates.

Dünhaupt describes five ways in which financialization changed executive behavior: 1. It shifted the basis of enterprise finance from banks to capital markets; 2. It reinvigorated the “rentier” class that had been on the decline by creating institutional investors (e.g., pension funds) that base investment decisions solely on stock prices and short-term return on investment; 3. It linked financial trading to new financial institutions (e.g., investment banks, hedge funds, and private equity firms) and new financial instruments (e.g., derivatives, stock options, and credit swaps); 4. It stressed profit-making through financial activities instead of through real productive activity; 5. Under the guise of increasing shareholder value in a firm, it subordinated the interests of stockholders in nonfinancial firms to those of directors (and, implicitly, those of Wall Street analysts, investment bankers, and large investors) (Dünhaupt, 2011, 10).

Financialization of US capitalism expanded the emphasis on maximizing financial gain that top management emphasized in large firms in broader institutional ways – through the spawning of venture capitalist firms, angel investor networks, and IPOs, through the promotion of private equity buyouts, amalgamations, and other schemes of privatization that whet the appetites of the investor class and fill the wallets of their agents with lucrative commissions for dealmakers in hedge funds, private equity firms, and investment banks.

The growth of finance inevitably transformed US management education. Carnegie Institute of Technology’s Graduate School of Industrial Administration (to become the Tepper School of Business in 2003) set up a Financial Analyst Security Trading Center (FAST) in 1989, one of the first US educational institutions to replicate successfully the live international data feeds and sophisticated software of Wall Street trading firms. (Bach, 1958) The business school at Carnegie Mellon introduced an MBA in computational finance, an MS in quantitative economics and an MS in computation finance in which the students studied equities, bond portfolio management, and the stochastic models upon which derivative trading, i.e., the Black-Scholes formula, is based. Although early off the mark, there was nothing exceptional in the last decade of the 20th century about the program in mathematical finance at Carnegie-Mellon; all the top business schools developed them.
MBAs increasingly found jobs in the banks, hedge funds, and investment houses of the expanding financialization sector. Khurana’s study of Harvard Business School MBAs cites a survey of first jobs for graduating Harvard Business School students: Between 1965 and 1985 students’ entry into financial services and consulting “rose from 23 percent to 52 percent” of graduates (Khurana, 2007, 328-29). The same shift happened in “other elite schools, such as Wharton and the business schools at Stanford and the University of Chicago.” By 2005 “among the 180 principals and managing directors in the 20 largest investment firms, 73...[held] an MBA from one of the six elite schools (Harvard 51, Chicago 7, Columbia 6, Stanford 5, Dartmouth’s Tuck 3, and Northwestern 1” (349).

British and American financialization affected the business of German private commercial banks in their own country; the Anglo-Saxon firms so dominated internationally that by 2004 German financial institutions only transacted 38.3% of the German merger and acquisition business, 21.8 percent of the German equity market business, and 16.3% of the debt market business (The Economist 1.11. 2004, 82).

German private commercial banks, fighting back, began trading in securities and engaging in business consultancy. They also, following the UK and US banks, marketed new products and services, including selling loan packages, credit cards, and insurance, and organizing electronic banking through automated machines and on-line services.

But educational and banking traditions hindered Germany from developing institutional arrangements that followed those pushing US and UK financial development. One difference was educational. In the US, the UK, and France members of an ambitious elite, like Trump, study in top-ranked schools; that is, where people study is more important to their careers than the subject studied. In Germany what people studied was more important than where. The absence of national elite schools made recruitment of financially savvy high flyers more difficult, especially when there were few MBA study programs in German institutions of higher education.

When big German commercial banks in the 1990s decided to adopt the US-UK investment banking model, therefore, they had trouble recruiting in Germany. The banks decided to acquire the required expertise through acquisition. Deutsche Bank bought Morgan Grenfell, the British merchant bank, in 1989 and Bankers Trust, the US specialist in hedge funds, in 1999, and moved its investment banking headquarters to London. Dresdner Bank acquired UK-based Kleinwort Benson in 1995 and US-based Wasserstein Parella in 2000, attempting to expand into the global big leagues of underwriting, sales and trading, and merger advice. In other words, running the risk of generalization, it could be said without exaggeration that US and UK financialization, because first off the block and more highly developed globally, co-opted German.

Manufacturing

The second big difference gleaned from a comparison of the top twenty German and US firms pertains to manufacturing. Few of the manufacturing firms on the US list were famous before World War II (Ford, GM, GE), but such firms dominate the list of the German top twenty, many of them prominent even before World War I (Deutsche Post, Robert Bosch, Daimler, BASF, Thyssen Krupp, Bayer, and Deutsche Bahn). The US list would have been different had it been drawn up before the Japanese challenge to mass production US manufacturing
had taken effect. In 1996, I described the rapid disappearance of the American staple industries in the early 1980s that the Japanese challenge caused in automobiles and in the related industries of steel, glass, and tires:

“The total number of workers in the automobile industry declined from 802,800 in December 1978 to 478,000 in January 1983. By 1980 Japan had become the world’s major automobile producing nation. American automakers’ world market share declined from 27.9 percent in 1970 to 19 percent in 1982. The story in steel was even worse. In 1982 eighteen major steel companies recorded a combined loss in that year of $3.2 billion. Half of the routine steelmakers’ jobs vanished between 1977 and 1988 (from 489,000 to 260,000.) To these horror stories could be added many others about American failure in mass-production industries – transistor radios, cameras, binoculars, sewing machines, color televisions, VCRs, compact discs, as well as in glass and tire manufacturing...” (Locke, 1996, 160).

Whatever Donald Trump thinks about the prowess of US management, it is clear that US mass production firms suffered an existential crisis after 1980, and a plethora of comparative management books and articles published in the 1980s and 1990s blamed the outcomes on the superiority of Japanese management to American.

H. Thomas Johnson, for one, traced the US failure in an industry they once dominated (automobiles) to the transformation of management through the financilization of top management, expressed in firm control mechanisms, whose philosophy of managerialism had permeated management school research and teaching. He wrote

“[US] managers believed they could make decisions without knowing the company’s products, technologies, or customers. They had only to understand the intricacies of financial reporting ... [B]y the 1970s managers came primarily from the ranks of accountants and controllers, rather than from the ranks of engineers, designers, and marketers. [This new managerial class] moved frequently among companies without regard to the industry or markets they served... A synergistic relationship developed between the management accounting taught in MBA programs and the practices emanating from corporate controllers’ offices, imparting to management accounting a life of its own and shaping the way managers ran businesses” (Johnson and Bröms, 2000, 57).

“At first the abstract information compiled and transmitted by these computer systems merely supplemented the perspectives of managers who were already familiar with concrete details of the operations they managed, no matter how complicated and confused those operations became. Such individuals, prevalent in top management ranks before 1970, had a clear sense of the difference between ‘the map’ created by abstract computer calculations and ‘the territory’ that people inhabited in the workplace. Increasingly after 1970, however, managers lacking in shop floor experience or in engineering training, often trained in graduate business schools, came to dominate American and European manufacturing establishments. In their hands the ‘map was the territory.’ In other words, they considered reality to
be the abstract quantitative models, the management accounting reports, and the computer scheduling algorithms” (Johnson and Bröms, 186-87).

Johnson observed, in his comparative study of US Big Three automakers with Toyota’s Georgetown, Kentucky plant, that the American firms operated under different forms of management than their increasingly successful competitor. He called the American mass production system “management by results”, which he presented under seven rubrics:

1. the individual is responsible
2. control results
3. follow finance-driven rules
4. manipulate output to control costs
5. increase speed of work
6. specialize and decouple processes
7. the individual is the cause – blame

By comparison the Toyota Kata at Georgetown operated under “management by means”, a system wherein:

1. relationships are reality, and management
2. nurtures relationships,
3. masters life-oriented practices,
4. provides output as needed on time,
5. changes how work is done,
6. enhances continuous flow, and
7. when troubleshooting, considers mutual interaction as the cause of a problem – not individuals (Johnson and Bröms, 2000, 186-87).

Toyota’s management at Georgetown reflects Japanese classroom education K-9 of intragroup cooperation that stresses “the process through which results are obtained, not the results themselves” (Locke, 1996, 141); US automobile production management mirrors educational traditions that evaluate an individual’s performance (Cummings, 1980, 117).

The US system of management by results is not only different from management by means but inimical to its adoption. Management by results served the needs of top managers and firm outsiders (stockholders, capital markets, and institutional investors) who based decision-making on financial results, but it frustrated management by means, which required attention to work process and people. In the competition between the two, management by means was more efficient.

Johnson’s studies have been taken up and explored by other production engineers. Mike Rother and his team spent five years investigating the Toyota Kata (2004-2009), a system of “unseen management routines and thinking” through which the investigator has to find his way “along unpredictable paths through a systematic process of discovery and adjustments”. This became particularly challenging to this group of management consultants when they tried to teach management by means in Western firms whose executives have a command and control mindset. Rother ran into the difficulty especially when teaching Western managers about empowerments. “[A command and control approach] is insufficient for tapping the brainpower inside an organization in a purposeful way. If people in organizations
are expected to make decisions and navigate rapidly at their level, rather than waiting to be told what to do, they need to be taught effective skills for how to do it” (Rother, 2014, 4).

To appreciate management by means requires the historian’s investigative methods, not just those of a mathematically shaped scientific paradigm codified and taught in departments of economics and business schools.

American manufacturing, therefore, has not ignored the Japanese challenge, but the impulse came primarily from manufactures themselves, production engineers, and from regionally or nationally organized associations like the Deming societies, the Association of Manufacturing Excellence organized in 1985, and the current Kata movement in industrial management, which economists ignore.

US business schools in their MBA education neglected the Japanese challenge. Only 1-2% of them had truly been affected, as of early 1991, by the Total Quality Management revolution that sought to install and make permanent a management climate in which the organization continuously improves its ability to deliver high-quality products and services to customers. Instead, beginning in the 1980s, financial strategists in academia and practice increasingly worked with corporate lawyers, stockholders, and financial promoters in various kinds of deal making.

Some converted quite successful public firms through leveraged buyout schemes into private equity companies. Only firms with significant untapped borrowing capacity, undervalued assets, and high cash flows – “common characteristics of many, if not most, of America’s largest and more prosperous corporations” (Shad, 1984, 6) – could get involved because buyouts were financed from money borrowed on a target company’s own credit line, and the huge debt incurred was paid back from a target company’s own cash flow (Kosman, 2010, 151-52).

These deals made money for institutional investment funds that lent the money (e.g., public employees’ pension plans), the deal makers, the target company shareholders (who received 50 percent to 100 percent premiums over the current market price of their stock), and managers, who were given golden handshakes. But the buyouts did not do much for stakeholders in the target firms.

Other deal makers targeted firms in economic trouble, especially older firms with high legacy costs (e.g., retirees defined-benefit pensions), in which management sought to shed the fixed costs in a variety of legal ways provided for in takeovers, mergers, and chapter eleven bankruptcies.

The management caste’s desire to break pension and benefit agreements motivated it the most. There were 112,000 defined-benefit private pension plans, entered into during the pre-1980s, in the US in 1983, each guaranteeing fixed levels of income to retirees. Many were not fully funded, that is, management, pressed by stockholder desires for good quarterly income statements and dividends to keep the stock price high, had made funding the employee pension plan a low priority.

Tough-minded managers preferred to eliminate pension and benefit plans altogether and to move employees into undefined contribution schemes that did not guarantee fixed incomes
for retirees, or, failing that, to establish individual pension savings accounts that greatly reduced company contributions and obligations.

The ruthless, relentless, and radical transformation of private pension plans that the financial management caste carried out during the chaos and restructuring of failed US mass production firms, impoverished white middle class Americans in the country's industrial heartland.

“From Reagan through [George W.] Bush,” Jack Rasmus reported in 2004, “business schools and financial crisis corporations have been terminating and undermining group pension plans by shutting down plants and moving companies, underfunding the plans, diverting funds to other corporate use when they can get away with it, and then, when the plan is in jeopardy, with the assistance of government and the courts, funneling whatever remains into 401-K type personal savings plans. From the passage of the Employee Retirement Income Security Act (ERISA) in 1974 until 2003, more than 160,000 Defined Benefits plans have gone under in the US” (Rasmus, 2004, 3).

During the same time the number of personal retirement accounts mushroomed. Very few households had such accounts in 1982, but by 1995 23 percent of households had a 401-K or an equivalent individual retirement account. That percentage reached 67 in 2004.

Management justifies its behavior on practical grounds: it is looking after shareholder interests. Those who terminated legacy costs even became management heroes, like Richard S. Miller, CEO of Bethlehem Steel, who jettisoned the company's $3.7 billion unfunded pension obligation to its retirees. This obligation removed venture capitalist Wilbur Ross bought the firm, combined it with four other derelict steel firms, and then sold the amalgamated firm, which had cost him $400 million, for $4.5 billion (Walsh, 2005).

The language that managers and business school academics use in articles about restructuring, mergers, acquisitions, leveraged buyouts and the like rarely, if ever, touches on how employees are affected. Mostly discussions focus on stockholder benefits, profits, and stock market valuation, before and after a deal, and on firm survival rates.

These are the concerns of people in the proprietary firm; and it is they who determine judgments about agency conflict. Since an entity conception of the firm is not in their consciousness, they as management scientists care little about what happens to the firm’s employees or retirees. Moreover, they do not look for entity solutions to these problems because employees are not integral to management structures. It is the management caste’s show, with the unions kept on the outside.

“What bothered Mr. Conway, the union leader [at the demise of Bethlehem Steel],” New York Times reporter M. W. Walsh wrote, “was not so much Mr. Ross’s inability to wring more money out of the pension system or his remarkable profit on the deal. What troubled him, he said, was that the country seemed unable to take any lessons away from the demise of the steel companies and how it affected so many working people. ‘It just staggers us that America’s not caught on to what’s happening to it,’ he said” (Walsh, 2).
American managerialism, therefore, failed the white middle class manufacturing communities twice: once, when it did not save the US mass production firms in which they worked from the Japanese managerial challenge, the second time, when in the shakedown of these industries in the 1980s and after, it made employees pay the price of this failure.

On the other hand, the finance instrumentalities financial deal makers invented promoted the ever yawning income gap between the bottom 90 percentile of income earners and the top one percent. Dünnhaupt in fact claims that the increased inequality in incomes can be attributed almost exclusively to one of them: stock options, i.e., that the introduction of stock options into American CEO pay is solely responsible for increasing their share of total incomes from two percent in 2000 to eight percent in 2007 (p. 19).

Why did German manufacturers not fail too? It could not be said that Asian manufacturers did not threaten them. They did, Germans were aware of it, and they, with those allied with them in government and education, carried on a twenty-year campaign to save their manufacturing firms – with success as the 2012 list of German top 20 firms reveals.

One advantage the Germans had over the US when confronting the Japanese challenge was their relative failure in financialization. Whereas it consumed US educational and business energies, its relative absence in Germany meant that it could and did not there.

Moreover, German business economics (BWL, Betriebswirtschaftslehre), when the crisis began, had a special hybrid degree in business economics (Wirtschafts-Ingenieur) – that Willy Prion, a business economist (no engineering degrees) organized in the technical university of Charlottenburg (Berlin) in 1923 and from where it spread to other venues – which kept professors in BWL and their students, unlike in US business schools, from turning their backs on industrial reform. By the late 1960s 11.11% (2,614) of students in German business economics (19,294) were in economics-engineering programs.

A third advantage German reformers enjoyed was the legacy of shareholder management that grew up postwar at the same time director primacy took control over American firm governance.

In 1994 I visited Germany to investigate the German response to the Japanese challenge to their manufacturing. I learned how the difference in management and management education just mentioned helps explain German success and the US failure. Before leaving for Europe, I asked Robert W. Hall, founding member of the Association of Manufacturing Excellence, about Germans to contact. In his response, he described Horst Wildemann as the “repository of nearly all the coming of manufacturing excellence practice to Germany, a part of it almost from the beginning” (Letter, June 25, 1994).

In 1994, Wildemann was professor of business economics, with emphasis on logistics, in the Munich Technical University, teaching courses primarily to engineering students on work-process innovation. He headed a substantial group of over 100 research-consultants (30% with degrees in business economics, Diplom-Kaufleute, 50% with Wirtschafts-Ingenieur degrees, 20% with engineering degrees, Diplom-Ingenieur), which included 35 graduate assistants. Their work was heavily oriented to mathematical modeling and computer simulations.
By 1994 the team had already introduced Japanese inspired production processes in 200 European (mostly German) firms, including Daimler-Benz, Grundig, Philips, and Volkswagen, over an eleven-year period. At Volkswagen his group had just (1994) spent three years teaching small-group quality control management techniques in five-day courses to over 2,500 managers. Thirty to fifty percent of German industry had already by that year successfully implemented Total Quality Management, including Just in Time, Kaizen, and/or other Japanese work-process techniques. German business economics through its Wirtschafts-Ingenieur engineering education tradition made a significant contribution to their work.

Wildemann also reported that in the four years at Volkswagen his group worked closely with works councils and IG Metall shop stewards. The group taught the new techniques to the shop stewards at the same time that they taught them to management. He reported that the works councillors fully appreciated the need to improve work processes but also understood the impact that the changes would have on jobs numbers in the workplace and on the need to reduce work time and pay. The union (IG Metall) not only promoted the implementation of Just-In-Time and other work processes but often led management in their implementation.

The success of the reform did not require German working communities to make heavy financial sacrifices in order to keep their firms. German supervisory boards in large German joint stock corporations have been generous to their managing directors, but never as generous as boards in America’s system of director primacy, under which CEOs set their own salaries. With the inclusion of stock options in executive pay packages, adopted in 1997, German executive income in stock market-listed public corporations started to track the skyrocketing incomes of America’s CEOs. CEO-to-worker pay ratio in Germany reached a ratio of 1:147 in 2012 compared to US CEO-to-worker pay ratios that year of 1:354, the highest income disparity in the developed world.

Conclusion

Donald Trump is famous for having a sense of his own infallibility. This character trait suits the American director primacy mode of management. Trump and his team of billionaires might jawbone US companies into keeping production facilities in the country, but it is highly doubtful that they will restore the private pension plans and other benefits managers jettisoned over the past quarter century that underpinned white middle class rank and file prosperity. As comparative discussions of the German case illuminate, this would require a shareholder form of firm governance where, as in Germany, employee-elected members of works councils and supervisory boards share in management, for in today’s amoral business world employees can protect their interests only if given a voice in the running of firms.

Nor is it possible that the Republican-controlled Congress will do anything to promote government-sponsored entitlement for working people in order to redress the losses in the private sector. This is an important point, because, as Stephen Paul Miller notes,

“We have not passed beyond the New Deal’s assumption, since we have institutionalized much that saves us. Medicare, Medicaid, disability and unemployment insurance, progressive income taxes, and food stamps prevent[ed] a full scale depression after the 2008 economic collapse by keeping consumer demand and the economy afloat” (Miller, 2016, 15).
As Congressional Republicans set their sights on the elimination of the programs, the prospect that a new Trump administration will restore prosperity in white middle class rust belt communities, through governmental any more than through private means, is dim.

With regard to how economists as well as Trump can benefit from this presentation: Until they include systems of firm governance in their calculations, they will never appreciate European economic achievements that the German example in the paper illustrates.

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Donald Trump, American political economy and the “terrible simplificateurs”

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“People accustomed to knowing they know everything worth knowing resent having to turn away from the mirror” (Lewis Lapham).

Art historian Jacob Burckhardt in 1889 bewailed what afterward became a cherished conservative term of abuse, “terrible simplificateurs”.¹ This memorable epithet, smacking of supreme erudite scorn, demands a closer look in President Donald Trump’s USA for all the barbed ironies it actually contains. Burckhardt ably fulfilled the checklist for card-carrying conservatives enamored with an organic status quo, ancient institutions, and lower orders who were revolting solely in their tastes.² What he foretold was an age overrun by ambitious apparatchiks who “descend upon our old Europe and make short work with voting rights, sovereignty of the people, material well-being, industry, etc. and will stand upon small ceremony”.³ Burckhardt, make no mistake, prized elite ceremony above all the crude annoyances of democracy. These new barbaric experts would accelerate accumulation of wealth to fantasized levels but in doing so would ruin, as he saw it, harmony among the classes. Next would gallop in wily demagogues to sort it all out. “For this will be the inevitable end of the state based on rule of law,” Burckhardt anticipated, “once it has succumbed to mere numbers and the consequences”.

Little wonder that this hoary old term revived with the mind-boggling election of Donald Trump. No one likes “mere numbers” more than he, evidently because they are so easy to play around with. In today’s usage “terrible simplifiers” is synonymous not only with authoritarian twits braying to the masses but also with utopian social engineers who decide for everyone else what is good for them. The engineers’ remedies (pace Veblen) are imposed one-size-fits-all formulas; hence, free market utopians, flat tax advocates and states’ rights proponents, however much they fancy themselves fastidious Burkean conservatives, are ideal candidates for the “terrible simplifiers” label too. Their ardent mission is to harness the state to serve the neoliberal market, Mirowski finds, and their revered freedoms do not include the

¹ For an example of the conservative application at derisive work see Leslie Mellichamp, “George Orwell: Terrible Simplificateur.” Modern Age Spring/Summer 1984.
² Historical conservatives were attentive to “an irrational realm in the life of the state which cannot be managed by administration,” and whose skill in managing cannot be taught a priori.” Karl Mannheim, Ideology and Utopia (New York: Harcourt Brace & Co, 1954), pp. 106. “It expressed the ideology of the dominant nobility in England and in Germany…” (p. 107).

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freedom to criticize the purity of the marketplace. Neoliberals employ politics, in other words, to abolish politics and so relegate power to private actors who, being on intimate terms with the market, really do know best. If neoliberalism isn’t utopian social engineering, then what is? Here we glimpse the compulsive schematizing state juggernaut that James C. Scott dourly analyzed, and which is repudiated as much by the anarchist left as by the anarchist right.

President Trump, soon the subject of numerous off-the-couch psychoanalyses, is indeed a terrible simplificateur, but this brief essay is a “look in the mirror” exercise regarding many aghast critics who conveniently overlook the wreckage that their own terrible simplifications, appraised in high verbiage andnumerical mysticism, have inflicted on the American economy for decades. Trump would not be in the worrying position he is in without immense inadvertent aid from simplifiers of different stripes and partisan leanings. Alan Greenspan, for one, and Lawrence Summers, for two, could not grasp that their economic paradigmatic blinkers were inadequate to the task before them during the 2007-2008 crash, and amends have yet to be made. So how far can the “terrible simplifier” trope take us in anticipating what the Great Orange One is likely to inflict upon and, or instigate in, what Page and Jacobs conclude is, after all, a “conservative egalitarian” citizenry?

Contrary to favorite media images of a tight-fisted, parochial, and selfish citizenry, Page and Jacobs’ survey research finds that “most Americans are philosophically conservative and operationally liberal”. Many Americans, moreover, became acutely aware after the recent crash, as Rexford Tugwell discerned during the 1930s version, that “rugged individualism really meant regimentation of the many for the benefit of the few”. Americans cannot always find precisely the right words to describe their leanings - although interestingly the word “socialism” reappeared without much incident during the Bernie Sanders campaign. Yet Americans (72%) know and care that inequalities are widening, but, since Congress doesn’t seem to heed them anymore, don’t know how to fix it. Even majorities of Republicans (56-58%) agree that income inequality levels are “too large” and are willing to make “personal sacrifices to deal with it”. Americans may like the sound of conservative values but pragmatism “overcomes philosophical rectitude” so that they “look to government to ensure genuine economic opportunity” in education, housing, health and other arenas. This is the real nation, not the Tea Party prism of it, that Trump and a Congress likewise elected by a minority (through astute gerrymandering and voter suppression) have taken the reins of. Still, the bailout of the thrift industry (157 billion) in the 1980s could have educated every college student with room, board and tuition, Slater reminds. “Americans are very generous when it

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4 The “neoliberal moment must seek to consolidate power by operating from within the state.” Philip Mirowski, Never Let a Serious Crisis Go To Waste (London: Verso, 2014), pp. 443, 437
7 Benjamin Page and Lawrence Jacobs, Class War?: What Americans Really Think about Economic Inequality (Chicago: University of Chicago Press, 2009), p. xi. An estimable forerunner to this research is Joel Rogers and Thomas Farguson, Right Turn: The Decline of the Democrats and the Future of American Politics (New York: Hill and Wang, 1986), which demolished the pro-Reagan popularity narrative with poll data regarding public responses to his policies, not his personality.
8 Cited in Nancy Isenberg, White Trash (New York: Viking, 2016), p. 221
9 Page and Jacobs, Class War?, pp. xi, 41, 44.
10 ibid. p. 97. From 1979 to 2000 the top 1% enjoyed a 184% income rise, the top 20% got a 70% boost and the middle fifth only 12% (p. 7).
comes to giving money to the rich." Is this likely to remain the case in the forthcoming Trump years?

The economically astute political science contributors to *The New Politics of Hard Times* embarked on an early appraisal of "a deep economic crisis and its relatively slender effects to date on political realignment and ideational orientation." As of 2013 they were still a bit perplexed that the crash "produced few signs of fundamental political realignment, policy experimentation (apart from Central banks), or mobilizations by new political actors in any of the most seriously affected economies." (The Sanders campaign, Jeremy Corbyn's ascent to UK Labour Party leader, and Brexit were yet to stir.) The volume coeditors, like much of the mass media, jumped anyway to what they curiously depict as a "backlash against increased government spending and rising levels of debt" – as if this "backlash" were not an anticipated element of the bank rescue scheme and essential to inflicting austerity policies afterward. What is oddly labeled "policy experimentation" by central banks was a crimped Keynesianism customized so that federal money funneled to the richest strata and only through their digestive systems in dribs and drabs to the rest of a stricken population. Why, contributors ask, were there no "redefinitions of interest in conditions of crisis"? Well, here was one key moment when the state redefined itself publicly as savior of the wealthy (in order of course to stabilize the system to serve those at the bottom).

Indeed the venerable Ralph Miliband-Nicos Poulantzetas “theories of the state” debate abruptly was decided in Gordian knot fashion in Miliband's favor. How can sophisticated analysts prattle about “relative autonomy” structural power, institutional constraints and myriad nuances of capitalist rule when a committee of the not quite whole and entire bourgeoisie is glowering at us across the cabinet table? The executive branch brazenly is populated by members of a class – not least since Bill Clinton appointed Robert Rubin Treasury Secretary – that textbooks say it governs at arm's length. These strategic placements, which in a peculiarly heartening way show that economic elites do not trust the state to act in their interests, ensured that it was Wall Street that got bailed out and not the American people, as should have been the case if the state displayed a legitimating degree of distance from wielders of private power. Donald Trump is a sigh of exasperation, a part of the price that a subsequent decline in legitimacy of the state has cost us.

Right wing coalitions, such as the one Trump erratically presides over, “will satisfy their constituents through asset bubbles and financial deregulation”, as Kahler and Lake predict, and Trump, like any Republican, is busy pretending he is doing it for the sake of average Americans, which no one outside his base believes. Although Trump is discovering that his chronic absolutist manner cannot make bureaucracies buckle to his whims, he was never going to threaten major players. “An absolute monarchy”, as Ambrose Bierce illuminatingly explained, “is one in which the sovereign does as he pleases so long as he pleases the assassins”. In all his accommodations Trump, if one sees him as an ordinary if big-time and thin-skinned huckster, is easy to predict. Many pundits say he baffles them but only because the blustery businessman ditches slick policy theatrics to tell lies he believes in to loyal

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13 ibid, p.2. It is strange to argue that TARP was "unthinkable by a Republican admistration," except for a crisis, when rolling it out as needed during a crisis was the whole point. (p.10).
followers, and makes the further mistake of appointing some of them to high posts. Trump packages himself not so much as a traitor to his class as a bad boy within it. Unlike FDR, he does not welcome the wrath of economic royalists since he remains one of them, one who intends to turn the spigot of federal funds and tax breaks wide open for the rich. What then are the consequences for new and stable coalitions for and against Trump?

An uninhibited businessman's self-serving demeanor ought to, and apparently already does, serve to motivate counter-mobilization. Trump has stepped into a crisis of neoliberalism he is equipped only to exacerbate. The voices warning about fascistic tendencies are probably but not entirely off track inasmuch as intensifying divisiveness is the way Trump instinctively promotes his agenda. Can his mishandlings, blunders and bluster generate a movement that can check him before he sic's the not so secret police on all opponents? The prospects for a new New Deal/Great Society style coalition promoting "collective goods and social protection" are slim but should not be discounted, Peter Evans reckons:

"Leaner, meaner is still more likely, but the possibility that state apparatuses might forge new alliances with civic actors in the early decades of the new millennium is no less implausible than the alliances that were actually forged between labor organizations and the state during the early decades of the twentieth century." 

Real estate magnates will thrive as infrastructure spending pours in for however long it lasts, as Galbraith notes, bankers routinely get pampered, the corporate sector wins tax cuts and regulatory "relief," the military is pacified as always with more cash, the medical system – with untenable Obamacare on the ropes – absorbs every spare penny and then some from anyone unlucky enough to need it, so-called entitlements are cut or given short shrift by the most entitled people on the planet, and the police continue to enjoy carte blanche. Anthony Russo of Pentagon Papers fame, by the way, said he knew why they tortured people in Vietnam -because they tortured people in the US, that is, former wardens and cops ran the interrogation programs. William Leuchtenberg, William Appelman Williams, Franz Schurmann and many other scholars noticed that the Democratic Party's progressive vision of regulated capitalist order was no less a natural fit with neo-imperialism than anything Republicans had to offer. Trump at least will behave sanely with Russia, while Hilary Clinton diehards do their best to hang the preposterous collaborator label on him.

Nothing Trump burbles is credible because every phrase is geared to his fleeting notion of what pleases his core crowd. Once they are cheered up, Trump reverts to the shadowy business practices he relished all his life alongside schemers every bit as dubious as he is. No recent public figure, except maybe Halliburton's own Dick Cheney, embodies all the reasons why Plato and the Renaissance Church regarded merchants as unfit as governors: "the astuteness of merchants, fostered by their lust for gain, has discovered so many tricks and dodges that it is hardly possible to see the plain facts, much less to pronounce judgment

17 James K. Galbraith, "Can Trump Overcome Secular Stagnation?" This volume.
on them.” Trump epitomizes the glib amoral executive who tells any tall tale that serves low purposes. Who hasn’t at some time suffered a boss or a provost like him? One swoons, though, at the thought of a fiery Obama fighting just as combatively from the bully pulpit for single payer or military cutbacks to pay for domestic needs as Trump does for his agenda against the media. As the Trump era starts, which indeed feels like an arrival of a demented Roman emperor, it is worth asking in the spirit of Monty Python’s “What do we owe to the Romans?” what does Trump owe to Obama and to both Clintons? Trump owes the Obama administration and Bill Clinton’s administration the licenses to kill afforded by drone warfare and JSOC, bank and brokerage firm bailouts, steep welfare cuts, habitual deference to market rhetoric, unchecked and unmonitored military expenditure, failures to roll back mass surveillance and police state authority, and promotion of the low bar temporary contract or part-time “gig” jobs which comprised over 90% of Obama’s boasted job creation. Nothing in Hillary’s own creed of terrible simplifications mitigated against any of the foregoing list.

Hilary Clinton blithely aided and abetted Trump every step of the way by running on a platform way to the right of Eisenhower’s, force-feeding neoliberal nostrums to thinning crowds, and alienating Sanders supporters who discovered that the Democratic party establishment is as deft at dirty tricks as Republicans are (against unwanted insurgents but not Republicans they desperately desired to entice), and scolded Americans that they would never ever afford Canadian-style National health care, wherein her donor network, not her statesmanship, was plainly showing. The Washington Consensus, with Clinton buttressing it, so far has proven to be politically impervious, which antagonizes highly mobilizable swathes of the populace. Trump alertly appeases some of them temporarily by balking at mega-trade deals, which antagonizes a quite different band of terrible simplifiers, but he does so more as a matter of hidebound bargaining tactics than principle. Yet no one is better suited in this century than Trump to galvanize a broad and potent counter movement of Polanyiesque proportions.

Trump’s tax plan, a Reagan repeat, is geared to raise taxes on working and lower class families, with single parents hit hardest and the lowest tax rate raised for all who barely make enough to pay it. His infrastructure plan is at root a corporate welfare giveaway and a stealth privatization scheme, as Krugman notes. Regarding Trump’s proposed repatriation holiday for overseas corporate cash troves, Craig Whitney notes, Goldman Sachs estimates that three quarters is “going go into buybacks that will pump up the equities bubble (that Trump criticized before he was elected) into the biggest colossus of all time. Is that the change that Trump backers were hoping for?” Eyebrows raised at the filling of the White House with minions from Goldman Sachs, an organization that feasts on suckers, which Trump reviled during the campaign. Chief advisor Steve Bannon, Steve Mnuchin (fourth Goldman Sachs

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21 For a good inventory right out of the gate of the makings of such a many-stranded movement see Peter Dreier, “Preparing for President Trump,” Movers & Company 22 December 2016. Accessed at http://billmoyers.com/story/list-anti-trump-liberals-progressives/
Treasury secretary in a row), Gary Cohn and Anthony Scaramucci snapped into high places, direct from a reptilian outfit that wriggled its way “out from under the mortgage crash by dumping its disastrous mortgage investments on its own clients as it simultaneously bet against them.”

One million fewer Americans now work at jobs of any kind than before the Great Recession while the conventional 9 to 5 job with benefits and security increasingly is an endangered species. A billionaire CEO in charge of the Department of Labor is epically ill-suited to reverse course. None of these are things you talk your way out of, and only 27% of the nation's eligible voters went for Trump in the first place. “If only rhetoric remains the rich are in trouble, James Scott observes, “because an inequality in resources can only be justified in terms of their social function”. We suspect we soon will see what it takes to ignite a conservative egalitarian nation.

Elsewhere in his oeuvre Burckhardt pertinently compared the modern dealmaker’s mentality to that of ancient Greek figures who viewed themselves as integral parts of the polis, and he waxes Arendtian about it. Today’s “educated men are firmly resolved to make a bargain, with whatever power, for their existence at any given time,” he lamented. “There is an enormous veneration of life and property.” But in this myopic orientation there is a “mass abdication, and not just on the part of the rulers” from the common good, for there are “numerous bargaining positions and concessions against the worst – and all with great touchiness in matters of recognition and so-called honor.” Sounds like someone we know. Keynes scribbled in a rueful and infamous line that for a little longer fair must be deemed foul and foul be deemed fair. Isn't the time up on that one?

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Mexico, the weak link in Trump’s campaign promises
Alicia Puyana [FLACSO]

Introduction

Since the Brexit referendum in the UK, whose result surprised us all, a large question looms in the minds of analysts, rulers and politicians: why did voters turn against projects that were, since World War II, the basis of international relations and of the post-World War II social pact?

Events such as Brexit, Trump’s election, Le Pen’s breakthrough in France and the establishment of right-wing governments in Poland and Hungary (in open defiance to the democratic principles of the European Union), though they are different in many respects, do have common features:

- the crises of the main political parties, abandoned by their constituencies,
- the rejection of political, intellectual and business establishments and the hegemonic economic doctrines of the last three decades (whether referred to as “globalization” or “economic neoliberalism”), and
- a reaction against refugees who are blamed for poverty, violence and the loss of identity.

These ideologies constitute the political phase of the economic crisis that erupted in 2008, the aftermath of which we are still experiencing: low growth, low productive investments, stagnation of productivity and real wages, concomitant with the decline in payments to labor in the functional distribution of income, not to mention the intensification of inequality in developed countries, or the Latin Americanization of the developed world (Palma, 2011). The current swing to the political right echoes the crisis of neoclassical macroeconomics, its general equilibrium models, and the methods of its teaching, which push economists and students away from real-life problems (Fullbrook, 2014; Puyana, 2015). Paradoxically, in recent years, in Latin America, the most unequal region in the world, inequality declined somewhat, although in Mexico it remains above the levels of 1980.

While the 2008 crisis called into question the fundamentals of economic theory over which the model of global growth had been sustained for the last three and a half decades, today we witness the crisis of liberal democracy and neo-liberal economics (Bauman, 2016), of the Social Democracy doctrine, the New Labor and waning The Third Way, as well as the fading out of the unrestricted support of globalization (Rodrik, 2017). Some foresee it as the end of the Pax Americana, or US hegemony established since the end of the Second World War and...
the world order that emerged thereafter (Roubini, 2017). For Trump, the costs of maintaining US imperialism are unacceptable; qualifying NATO as obsolete and its members as free riders and suggesting nuclear proliferation of Japan and Korea while keeping the USA “at the top of the pack” (Trump 2017) would be a sensible strategy, as it would reduce for the US the cost of defending these countries. In reality he is not an isolationist. He aims at controlling word order in his own terms: reinforcing the military power elements of the international security policy and weakening the elements of world peace, that inspired the II WW peace agreements and described in F.D. Roosevelt 1944 State of the Union Speech (Roosevelt, 1944), for whom security was not only preventing foreign aggressions but also avoiding any threats to economic, social and moral security, because a basic element of world peace is “a decent standard of living for all individual men and women and children in all Nations” (Roosevelt, 1944). Furthermore, for Roosevelt, peace depended on “…freedom from fear which is eternally linked with freedom from want” (Roosevelt, op cit.).

Exacerbated globalization has made clear the contradiction between democracy, which proclaims equality among all human beings and a capitalism that sanctions inequality, that inequality in wealth which supposedly guarantees investment and an economic growth and would end poverty. If property is the basis of freedom, the concentration of wealth impedes equality in freedom and in its exercise. One characteristic of neoclassical economics’ models and the policies it backs is its lack of support and even disapproval of democracy (Radford, 2016). The same author adds that the principle of efficient allocation under conditions of scarcity leads to rejecting every attempt of redistribution of income and wealth downwards. This rejection is consistent with Lucas (2004) for whom: “Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion, the most poisonous, is to focus on questions of distribution”. All this led to the metamorphosis of economics, from a social science to a completely sanitized discipline that subordinates the state and society to the dictates of the market. In this way it came

“... converting economic theory into a non-political discipline – neoclassical theory destroyed, by the same process, its relation to the real world” (Galbraith, 1974, p. 240).

Thus, adds the author,

Neoliberal economics and the Third Way political programmes, with its supply side model and its trickle down myths, intensified the innate tendency of capitalism toward concentration of wealth and, by eliminating the mechanisms of distribution and countervailing measures, widened the universe of losers, mainly workers, and reduced that of winners, and rewarded the latter with ever growing profits. This approach was part of the synthesis of Regan-Thatcher market liberalism and social individualism with social democracy distributive policies. The market was to be the means of tackling inequality and avoiding social disintegration. The motto of European Social Democratic parties and left of the centre parties
elsewhere was, “equal opportunities for all”, while pushing market oriented reforms in education and health. The crisis of 2008 evidenced the extent to which labor had been degraded, wages stalled and social mobility slowed, while services deteriorated and household debt prevented the deterioration of wages hurting even more. Fiscal discipline, or fiscal consolidation, evolved into a permanent austerity, enhancing the effects of the economic contraction, exacerbating inequality and deepening social discontent.

From the growing debate over the kind of government that Trump will lead, it seems that a nightmarish *Plot Against America* might be close to becoming a reality. For some, this is all about the rise to the White House of a determined leader, willing to affect all institutions, to “deconstruct the administrative state” (Bannon, 2017). For others, Trump is a right-wing populist actor in form and language, devoid of ideology. There seems to be no doubt of his authoritarian character and his determination to shake the system, creating conflicts with world leaders, both close and distant allies, and with the judiciary power, the media, members of his party, with women, ethnic minorities, and the intelligence authorities. He also fuels conflicts in the legislative branch between the two parties, given the Republican's willingness to accept all presidential initiatives and to excuse all his outbursts and the conflicts of interest that he defiantly ignores; there is no will to engage in bipartisan politics. So far it appears that he intends to make his proposals a reality, without abandoning his peculiar way of communicating with short, direct sentences that leave a wide margin for interpretation. In his rhetoric truth is not a requirement. How far he will go is not clear. Nor is it clear whether the checks and balances of the system will be able to set brakes on him or on specific policies. The failure to have the health care reform approved could signal that President Trump has to negotiate. It is scary that the most vocal opposition came from the far right of the Republican Party.

In an anachronistic view of reality, Trump’s inaugural speech sketched an American society that, besieged and weakened by the harassment of internal and external enemies, has lost its dreams, military hegemony and middle class wealth. The schools deprive American children and youth of knowledge, while the infrastructure collapses and the factories are abandoned to rust. Migration, made up of criminals and terrorists, bleeds the nation and globalization destroys the social fabric by ruining the productive sector through the export of jobs. Since *protection leads to great prosperity*, the recipe to “make America Great Again” boils down to: *buying made in America, by American workers*. Such is the government formula for economic nationalism based on *alternative realism*, in which there is no room to talk about the crisis of 2008, nor about the ravages of financial deregulation and huge mergers, all of which lead to the dominance of large corporations and financial capital in the global economy and the consequent intensification of inequality.

Today, the US economy is growing at a faster rate than similarly developed ones. The number of people receiving unemployment insurance, 1.2 million in 2015, is 70% lower than in 1996, and lower than any time since 2008-2009. With only 4.5% “unemployment” as officially defined, it is close to full employment, judging also by the fact that wages have increased and are finally close to those in 2007. This reality calls into question what it means “to bring jobs back home”. More employment? Or higher productivity, with superior technology and robotization? Certainly, the first Labor Secretary candidate is neither a champion of the workers nor the defender of labor income, minimum wages or labor unions. Trump is staffing his economic cabinet with officials from Wall Street corporations and has gone in the direction of undoing previous reforms to the financial system, approved after the crisis of 2008. This indeed is not an agenda that favors workers and the middle classes.
Mexico: the greatest enemy for the United States

Regardless of whether or not Trump can realize his economic nationalism agenda, it is clear that he intends to carry out the vision outlined in his inaugural speech: “Decisions in trade, immigration taxes, and foreign affairs will be taken only for the benefit of American workers and American families” (Trump, inaugural speech). The three areas selected by Trump comprise several topics that generate internal and external conflicts.

Trade. Trump proposes reducing the trade deficit, punishing exchange manipulation and retaliating against what he regards as unfair trade practices. The main points of the new government agenda were outlined in a draft of the “annual trade policy agenda” of the United States Trade Representative (Council of Foreign Relations, 2017). To protect national interests, Trump promised to bilaterally renegotiate multilateral or bilateral trade agreements, especially NAFTA, for him “the worst agreement ever signed”. He has signaled the end to the strategy of promoting economic integration as the way to prevent the resurgence of nationalist sentiments and violent conflicts of interest. That was the idea behind the construction of the European Union and of the mega trade projects: the TPP and the TTIP, which were instruments for consolidating USA geopolitical supremacy and restoring the political balance disrupted by the emergence of China as a main political and economic player. Furthermore, Trumps intends to circumvent the WTO, considered by him a medieval institution in which the tyranny of the majority made it impossible to impose a USA hegemony (Lamy, 2003). In effect, it seems Trump’s government may not be entirely against free trade, that it is looking to redefine trade rules so as to “defend national sovereignty over trade rules and to strictly enforce USA trade laws” (Council of Foreign Relations, 2017)

Taxes are part of the new trade policy. He has proposed a border adjustment tax, to compensate for the value added tax some countries implement. The VAT tax has been mistakenly described as an unfair tax on imports. Secondly, Trump has proposed a revision of corporate tax, to roll back the Dodd Frank Act and to amend the Volcker Rule. These measures would favor big capital and endanger economic stability as they recreate the conditions which lead to the 2008 crisis.

Migration is at the same time an economic issue due to its impact on US wages and, more importantly, a matter of national security, due to Trump’s belief that those who emigrate to the United States are terrorists, violent people, rapists or drug dealers. All this reverberates in the urgency to build the wall on the southern border and in the controversial executive order forbidding the migration from seven Muslim countries. Such criminalization of immigrants echoes the stance towards Afro-American and Latino communities.

In international relations, or national security, there are potential conflicts with China, an emerging power with the ability to challenge US supremacy in the Pacific. There are also conflicts regarding the Middle East, North Korea and Iran, but these are not mentioned by Trump as frequently as drug trafficking and the flow of immigrants from Mexico whom he describes as “gang members, drug lords and criminals” (Trump, 2017). President Trump’s national security team confirms the militaristic stance in his campaign, as do also the large increases for the military in the projected budget. In a telephone conversation with Mexico’s President Peña, Trump offered to dispatch US soldiers to contain Mexican “Bad hombres”. The offer was made out of President Trump’s perception that Mexican civil and military authorities are unable or unwilling to do their job, suggesting Mexican state is a failed state.
Mexico is thus identified as a unique threat to the security of the United States with regard to most of the issues Trump has emphasized in his speeches and summarized in Table 1.

Table 1 Major threats to United States national security, wellbeing and prosperity, according to President Trump

<table>
<thead>
<tr>
<th></th>
<th>NAFTA</th>
<th>Central America</th>
<th>Europe</th>
<th>North America</th>
<th>ISLAMIC STATE</th>
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<th>JAPAN</th>
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<tr>
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Source: Own elaboration

NAFTA, a trade deal not good for the USA. Really?

According to Trump, NAFTA is the most damaging trade agreement to US interests ever signed. It is a result of astute Mexican negotiators gaining commitments contrary to American’s national interest. He repeatedly highlights Mexico as the exclusive culprit (with no mention of Canada) of having deceived the US during the negotiations. Nothing could be farther from the truth. This untruthful picture of the agreement calls for an objective description of the negotiating process and an illustration of the trajectory of the Mexican economy since NAFTA, to demonstrate that Trump’s criticisms are ill intended and a pretext for imposing a new round of negotiations under conditions of extreme power.

Truth is far removed from the claim that US negotiators accepted under NAFTA concessions detrimental to US national interests. The negotiations for NAFTA between Mexico and the US were between two deeply asymmetrical countries:

a) they had radically different levels of economic development and influence in the regional markets;

b) there were large differences in the two country’s economic models and their gaps with the implicit model of the agreement;

c) they assigned different subjective utility to the non-agreement alternative; and

d) there were major differences in their institution building processes and traditions.

By way of Alessina’s (2006) war of attrition, the debt crisis (1982), was an opportunity to enforce very radical macroeconomic reforms, liberalizing the Mexican economy, privatizing public sector enterprises, even if these were not at the roots of the crisis. President Salinas (1988-1994) and the political and technocratic elite in power, considered the signing of a free trade agreement with the US as the instrument that would make irreversible the reforms and the modernization of both the Mexican economy and Mexican society. These reforms would increase stability and investor confidence, reassuring the inflows of capital needed to maintain
economic growth (Ros, 1994). Therefore, for the Mexican government any other alternative to NAFTA had little value, and US negotiators understood this fact very clearly. Consequently, Mexico needed to offer larger concessions as a result of the lower subjective utility assigned to the Mexican “no agreement” alternative (Wonnacott, 1994). Mexico, the smaller economy and the weaker state, took the initiative to begin negotiations; it was the seeker, looking for a safe haven for its exports, and who was willing to negotiate reciprocity by opening its economy even further, after implementing a far-reaching unilateral liberalization to joining GATT (Drache, 2001).

What were the objectives and interests of the USA behind NAFTA? The largest country (in 1994 the US economy was 17 times larger than the Mexican economy) considered that there were no important changes in prices, nor gains from specialization due to marginal changes in tariffs, because practically all Mexican exports entered the USA almost free, with a 4% average tariff. USA exports to Mexico faced several times higher border and non-border trade barriers. So, the US was interested in extracting from Mexico, on top a drastic cut of all tariff and non-tariff trade barriers, all the concessions Mexico was willing to give. And Mexico was prepared to pay all the costs just to reach the agreement (Heillener, 1991). These included trade and non-trade and even non-economic incentives that could legitimize the United States signing the free trade agreement with Mexico and it was agreed, as early as 1990, that

“Mexico would not be treated as a developing country in the negotiations, meaning that it would not receive preferential treatment in matters such as transition periods for the elimination of tariffs” (Maxwell, 2000).

Mexico granted the USA larger tariff preferences than the ones it received, and in the first year of NAFTA, 50% of the tariff advantages in the US market were lost due to trade agreements the USA signed with countries with an export offer similar to Mexico’s. Since the Mexican economy was more protected and regulated, Mexico had to make larger adjustments in the form of “side payments” as entry fees in the “new issues”, which were eventually included in the agreement, namely trade in services, regulations and protection of intellectual property rights and in foreign investment, considered the jewel of the crown won by the United States (Drache, 2001). NAFTA was also a pioneer in the Investor-state dispute settlement, later incorporated into the Uruguay Round within GATT, which allows private companies to sue states for policies purportedly damaging to their interests. Furthermore, Mexico wholly and hastily liberalized agriculture and accepted that the US maintained its Farm Bill stimulus, which would later create a dumping effect, or losses to Mexican farmers of up to $13 billion dollars in constant 2005 prices (Wide, 2009), and it is calculated that no less than 5 million rural laborers abandoned this sector, while the imported content (completely from US origin) of the apparent consumption of Mexican staples (maize, beans, barley, rice, soy, among others) grew up to 50%, sometimes even close to 80%, which constitute a serious corrosion of food security. Moreover, Mexico absorbed all the costs of the institutional changes demanded by NAFTA and adopted the North American ones. Therefore, NAFTA did not entail any cost to the United States (Clinton, 1997). In this context, the increase in Mexican exports under NAFTA is more of a consequence of, on the one hand, the revaluation of the dollar

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1 Baghawti expressed an abrasive opinion about the reasons and the urgency of the Mexican negotiators to reach the agreement: Mexican architects of NAFTA have a point of view that encouraged them to look at problems from the prism north of Rio Bravo. They were impressed by the US and wanted to emulate it. They said, “The US has done well. If we join with North America, all our problems will be over” (Author’s translation), Bhagwati, Jagdish N., El Financiero, 22 de noviembre de 1999, p. 24.
rather than the tariff reductions in favor of Mexico and, on the other, the increasing imported content of Mexican manufactured exports (USITC, 2003).

The Mexican economy under NAFTA

Certainly, global economic liberalization went too far, especially regarding financial deregulation, large corporate mergers that nullify the market as well as the ever-growing transfer of national decision-making centers to supranational non-elected entities, of the policies that affected society, creating a sense of denationalization in everybody’s daily life. All of this runs parallel to the increase in income gaps between and within countries, which accelerates mass migration and creates global humanitarian problems.

As noted, the primary objective in negotiating NAFTA was to prevent radical changes in the liberal model implemented since the mid-1980s, which amounts to not allowing society to modify economic policy through the electoral process. However, liberalization and the structural reforms eliminated or reduced state interventions on commodity, labor, and financial markets, but did not act to reduce the large concentration of capital or take measures to control its effects. From then until now, the trend of the Mexican economy has been the least favorable since the end of the 1940s, with the smallest GDP growth rates (close to 1.2% per year), with low labor and total factorial productivity, wage repression, declining tradable sectors in GDP and employment and the explosion of informal labor, which is today about 60% of the total labor force employed. If inflation has been controlled, it has been through internal devaluation and permanent fiscal austerity, amidst very low direct taxation (effective tax revenues represent 14% of GDP, excluding oil income). All this has led the economy to a low-growth equilibrium with low-income, limited aggregate demand and limited investments. This trajectory has implied a redistribution from labor towards capital, in which Mexican labor appears as the greater loser when compared to American labor (Figure 1). This change in the functional distribution of income occurred in most countries of the world, but only a few present a scale of change similar to Mexico’s. Between 1980 and 2014, the share of wages fell by 11.5 percentage points, a decrease 2.3 and 3.8 times higher than the one in the United States and Canada, respectively, and the highest among OECD countries (OECD. 2016).

Figure 1 Functional distribution of income in the United States, Canada and Mexico, 1970-2014

Source: Own calculations based on OECD.Stat2016, accessed 10 February 2017 at: https://stats.oecd.org
Mexican GDP expanded 3.7 times more than national wages, compared to 1.9 in the US.² This confirms that in both cases capital accumulated the profits and labor lost them, and which happened in Mexico to a greater extent. Before the reforms, between 1970 and 1980 and the supply model, the trend between the two countries was in the opposite direction. Mexican labor lost 0.5 points of income while that of the US lost three times more. The situation after the reforms in the Mexican manufacturing sector has been the same but magnified: labor productivity grew twice as much as real wages per worker. From this angle, the impoverishment of Mexican workers is greater than that of the Americans, thus, contrary to Mexico being responsible for the "... looting of other countries that make our products, steal our companies and our jobs" (Trump, 2017). The high presence of investments implies that Mexican workers handed over income in favor of external foreign capital, basically from American origin, the largest foreign investor in the country. This transfer of labor income to capital is a result of having converted the wage bill into the main element of international competitiveness, therefore a production cost to be reduced. Average real wages for 2015 represent 75% of those for 1980 and real minimum wages, only 35%. This fall in labor income has meant that average real wages in Mexican manufactures are lower than those in China and is ironically presented as an achievement in productive efficiency unleashed by liberalization and NAFTA, as explained by former Mexican Secretary of Economy and main NAFTA negotiator, Jaime Serra (Serra, 2014).

**Who depends on whom?**

Another fictitious argument is that disadvantageous trade with Mexico, China and other countries made the US economy dependent on such partners.

The US economy is considerably less open than that of Mexico, Canada and China, and practically all OECD countries. The external index of an economy (the total trade of a country as percent of its GDP) shows the degree of openness of an economy to global competition, that is, how much of its product is imported and exported. The United States appears as a relatively self-contained economy with relatively limited penetration of its domestic market by imports and comparatively limited exports. Mexico and Canada are the most open and China is relatively closed, as shown in Table 2. With an external coefficient of 72.8% of GDP (37.5% imports and 35.4% of exports), the Mexican economy is 2.6 times more open to competition in domestic and external markets, than the American one. Even Canada appears less open than Mexico. So it is hard to understand how the US could be dependent on Mexico or China. Whereas Mexico depends much more on trade, for the US the domestic demand is more significant.

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² Mexico was, amongst the 36 countries listed in the OCDE data base, the country with the biggest labour losses in primary distribution of income, after Ireland and Portugal and closely followed by the United Kingdom which occupied fourth place.
Table 2 Canada, Mexico and the USA: External Coefficient of their economies, 1990-2015, as % of GDP

<table>
<thead>
<tr>
<th></th>
<th>Canada</th>
<th>China</th>
<th>Mexico</th>
<th>United States</th>
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</thead>
<tbody>
<tr>
<td>Imports</td>
<td>24.9</td>
<td>33.8</td>
<td>10.7</td>
<td>18.6</td>
</tr>
<tr>
<td>Exports</td>
<td>25.1</td>
<td>31.5</td>
<td>14.0</td>
<td>22.1</td>
</tr>
<tr>
<td>Total</td>
<td>50.0</td>
<td>65.4</td>
<td>24.7</td>
<td>40.7</td>
</tr>
<tr>
<td>Trade Balance</td>
<td>0.2</td>
<td>-2.3</td>
<td>3.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Average</td>
<td>1.1</td>
<td>1.7</td>
<td>-0.5</td>
<td>-1.6</td>
</tr>
</tbody>
</table>

Source: Own calculations based on World Bank; WDI, 2016

In the context of the aforementioned trade openness, we define dependence as the weight of reciprocal trade in the GDP of each participating country. As shown in Figure 2, about 3.5% of the GDP in the US is linked to trade with China and about 3% to trade with Canada and Mexico (Panel B). The dependence from the opposite side (Panel A) is surprising, if not alarming. 46.4% of Mexican GDP depends on trade with the US, a dependency 15.7 times more than the one US has from Mexico. In contrast, China’s dependence with respect to US trade is almost three times lower than that of Mexico, while the Canadian is 10 points below. With these parameters in mind it is hard to accept the claim that the US depends on Mexico. On the contrary, what stands out is the asymmetrical dependence of Mexico on USA economy.

Figure 2 Dependency of the economies of Mexico, Canada, China and the United States, as % of GDP, 1996-2015

Panel A
From USA regarding Mexico, China and Canada

Panel B
From Mexico, Canada and China regarding USA

Source: Own calculations based on World Bank, WDI 2016

Second, the diversification of markets of origin and destination of exchange moderates US commercial dependence. Only three countries account each for more than 10% of total imports (China 21%, Canada 13% and Mexico 12%) and exports (Canada 18%, Mexico 15% and China 7.3%). Contrasting these proportions with Mexico’s, the United States is the primary destination of 85% of its external sales and the origin of 40% of imports. Note also the imbalance in trade with China, which accounts for 21% of USA imports and only 7.3% of US exports. This asymmetry is most noticeable considering that the Chinese economy is 7.4 times larger than the Mexican and could capture a larger proportion of US exports. In 2016, the trade deficit of the US with China was 18 times greater than the Mexican one, reaching up...
to 319.3 billion dollars. In this context, the Mexican trade surplus with the United States grew from between 18 to 58 billion dollars between 1996 and 2016, a trend explained by the automotive sector, which accounted for 79.3% of the imbalance, followed by electronics. Mexican total sales of automobiles and auto parts account for 26% of total US automotive imports, but only 2.3% of its total imports.

Table 3 Percentage share of Mexico and China in United States trade, 2000-2016

<table>
<thead>
<tr>
<th></th>
<th>US Imports From Mexico</th>
<th>US Imports From China</th>
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<td>10.61</td>
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<tr>
<td>2013</td>
<td>12.37</td>
<td>19.42</td>
<td>14.32</td>
<td>7.71</td>
</tr>
<tr>
<td>2014</td>
<td>12.53</td>
<td>19.88</td>
<td>14.83</td>
<td>7.63</td>
</tr>
<tr>
<td>2015</td>
<td>13.12</td>
<td>21.50</td>
<td>15.71</td>
<td>7.72</td>
</tr>
<tr>
<td>2016</td>
<td>13.50</td>
<td>21.12</td>
<td>15.96</td>
<td>7.85</td>
</tr>
<tr>
<td></td>
<td>China/Mexico</td>
<td></td>
<td></td>
<td>1.6</td>
</tr>
</tbody>
</table>

Like no other sector, automobile manufacturing reflects the problems of global value chains: approximately 40% of the exported value are inputs, components and parts, imported from the US companies. An additional 20% is imported from Japanese, Korean and European USA subsidiaries. Mexican manufacturing exports are intensive in imported value added, which varies in the different branches, Table 4.

Table 4 What is exported? Import content in Mexican and Chinese exports

<table>
<thead>
<tr>
<th>Sectors</th>
<th>MEXICO</th>
<th>CHINA</th>
<th>Difference (MX-CH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Agriculture, Forestry, Fisheries</td>
<td>8.51</td>
<td>14.54</td>
<td>5.81</td>
</tr>
<tr>
<td>2 Mining and extraction</td>
<td>4.50</td>
<td>5.72</td>
<td>9.33</td>
</tr>
<tr>
<td>3 Foods, beverages and tobacco</td>
<td>14.34</td>
<td>18.50</td>
<td>8.38</td>
</tr>
<tr>
<td>4 Textiles and products</td>
<td>21.02</td>
<td>25.85</td>
<td>17.84</td>
</tr>
<tr>
<td>5 Leather</td>
<td>16.33</td>
<td>21.02</td>
<td>18.92</td>
</tr>
<tr>
<td>6 Wood and products</td>
<td>12.47</td>
<td>14.96</td>
<td>16.14</td>
</tr>
<tr>
<td>7 Paper, pulp and printing</td>
<td>18.69</td>
<td>21.16</td>
<td>14.44</td>
</tr>
<tr>
<td>8 Coke, refined oil products, nuclear fuel</td>
<td>6.34</td>
<td>8.03</td>
<td>20.68</td>
</tr>
<tr>
<td>9 Chemicals and products</td>
<td>12.93</td>
<td>16.25</td>
<td>15.35</td>
</tr>
<tr>
<td>10 Plastics and rubber</td>
<td>24.76</td>
<td>32.29</td>
<td>18.05</td>
</tr>
<tr>
<td>11 Other non metallic minerals</td>
<td>10.44</td>
<td>12.56</td>
<td>10.87</td>
</tr>
<tr>
<td>12 Basic metals</td>
<td>23.37</td>
<td>27.38</td>
<td>15.52</td>
</tr>
<tr>
<td>13 Machinery</td>
<td>30.68</td>
<td>34.52</td>
<td>14.85</td>
</tr>
<tr>
<td>14 Electric and optical equipment</td>
<td>54.40</td>
<td>61.31</td>
<td>22.25</td>
</tr>
<tr>
<td>15 Transportation equipment</td>
<td>34.84</td>
<td>36.79</td>
<td>16.32</td>
</tr>
<tr>
<td>16 Manufacturing and recycling</td>
<td>28.93</td>
<td>33.34</td>
<td>15.47</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on World Input Output Database (WIOD) matrices.

Exports with highest imported content are precisely those activities with greater technological content and greater presence of foreign investors. Those are precisely the activities in which the Mexican trade surplus with the US is higher: electrical, electronic and optical equipment,
transportation, machinery. In contrast, Chinese external sales contain less imported content, except for some commodity-intensive products.

The highly imported content of Mexican manufacturing exports implies an intensified propensity to import and with more severe external restrictions intensified: for each point of increase in GDP, the imports increased by almost 5%. The final effect is a weakening of the link between growth in manufacturing exports, sectoral and total GDP, and employment (Puyana, 2015) a trajectory evident from Figure 3.

**Figure 3** Share of manufactures in total GDP and exports, 1960-2014


The decline in GDP manufacturing is associated with a smaller but significant decrease in employment starting in the year 2000. This is the reason why sector productivity has not grown as would be expected by the progress of the sectors’ openness, similar to that of total GDP (Romero, 2014). The deindustrialization of the Mexican economy is real, despite its volume of exports.

The trade of manufactured goods between Mexico and the US is vertical intra-industry exchange, in the sense that the two countries exchange goods classified in the same tariff category, which are differentiated by quality and intensity of factors: Mexico exports to the US goods with lower economies of scale and low technological content for lower income markets, and imports the same goods but of more technological sophistication and with higher prices. The effects would be similar to those of inter-industry, Heckscher-Ohlin-type trade (Puyana, 2003). With these considerations, taxes on companies that produce in Mexico and export to the US, either in the form of a Border Adjustment Tax or import taxes, would raise prices in a differentiated manner, punishing mostly consumers in the lower income group. Mexican manufacturing production is found in the most labor-intensive fragments of the production process of the global value chains and represents a tiny share of the value of each product. Therefore, its return to the US will not represent a huge increase in jobs creation but could imply some inflation, especially when considering it parallel to a large plan of public investment.
What to do?

Two facts looks certain: first, Trump and his team will follow through on campaign promises; second, the US presidency is advocating economic nationalism aiming to protect USA production and employment through the relocation of global value chains. This change of focus has left a void for the Mexican leadership, be it in the public or the business sector. The American president pretends to legitimize chauvinist nationalism, presenting it as economic protectionism in defense of employment and reasserting that previous governments forgot to defend the national interest. As if the USA were a developing, commodity-dependent country, Trump says that the US suffers from the effects of an “impoverishing trade” which de-industrialized, turning the country to a low-value manufactures assembling economy. De-industrialization is not a phenomena resulting from trade, but from a higher degree of development, higher per capita income and the consequent change in the structure of demand. Trump’s ideological positions which guide the formulation of the trade strategy (USTR, 2017) emerge from the false premise,

“… that if other Nations are encouraged to raise their standards of living, our own American standard of living must of necessity be depressed” (Roosevelt, op cit.).

So Mexican society received with astonishment both the change of the USA economic policy and the repeated aggressions of Trump the candidate and the president, and refuses to accept them. Notwithstanding the grievances, President Peña invited Trump and gave him the president’s platform. Today, a month after his inauguration, the public rejection of the threats of the USA president and the lukewarm Mexican official answers, resonates stronger by the day. The vast majority of Mexicans reject the idea that defense of national dignity and national sovereignty should be interpreted as support for the government or the major political parties or those responsible for the deterioration of the living conditions of the population. The demand for clearer and more energetic attitudes and responses is growing and pushing the government to reject any kind of threats and intimidations and to suggest it would suspend cooperation in migration, drug trafficking and terrorism even to abandon the NAFTA negotiations table if the USA insists in imposing taxes on Mexican exports and on USA investments in Mexico.

Since the US presidential primaries, Mexico has been living in an environment of uncertainty, declining growth and sharp devaluation of the Peso. Different proposals have emerged to resist the crises, which show the deep division in Mexican society. There is unanimity on two issues: first, not to pay for the wall, which is an act of antagonism and xenophobia irreconcilable with the deepening economic integration and ongoing collaboration on security and drug trafficking issues; second, to defend the rights of deported Mexicans, offer them services and assistance of all types, once they arrive in the country, and oppose any measure to tax or to freeze Mexican workers’ remittances. So much for the consensus.

Dissent revolves around whether or not to renegotiate NAFTA or whether to take Trump’s policies towards Mexico as the opportunity to revise the development model. In any case, the desirability of diversifying external markets is emphasized as well as reintegrating productive chains and strengthening the internal market, which are at odds with NAFTA. Past economic trends, employment wages, inequality and poverty reinforce the need for changes in

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economic policies, with or without NAFTA. Table 5, which summarizes and groups the views of diverging representative sectors of the society.

Table 5 Views of Mexican society in the face of changes in US policy towards Mexico and NAFTA

<table>
<thead>
<tr>
<th>Sector Reaction or proposal</th>
<th>To Negotiate NAFTA</th>
<th>Defending free trade</th>
<th>Rejecting border tax</th>
<th>Not renegotiate NAFTA without mutual benefits</th>
<th>Abandon NAFTA and opt WTO</th>
<th>Strengthen internal market</th>
<th>Decrease taxes</th>
<th>Protect Agriculture</th>
<th>Industrial policy, infrastr.</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gobierno</td>
<td>11</td>
<td>9</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Actores politicos</td>
<td>8</td>
<td>10</td>
<td>1</td>
<td>4</td>
<td>10</td>
<td>9</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Empresarios</td>
<td>17</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>17</td>
<td>4</td>
<td>3</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Sindicatos, movimientos sociales y ONGs</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>5</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Academia</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>14</td>
<td>9</td>
<td>1</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>43</td>
<td>27</td>
<td>13</td>
<td>17</td>
<td>25</td>
<td>49</td>
<td>17</td>
<td>7</td>
<td>18</td>
<td>12</td>
</tr>
</tbody>
</table>

| Actor responses, absolute values | 83 | 42 | 73 | 30 | 228 |
| Actor responses, percentual shares | 36.4 | 18.42 | 32.02 | 13.2 | 100 |

Source: Author's elaboration.

While 19% of persons prefer to renegotiate NAFTA, many government and business actors (27 or the 11%) opt to “modernize” NAFTA, and to preserve the free trade ideology that sustains the supply side economic model. They also reject import and export taxes, domestic and foreign. All-in-all pro free trade position comprises 36.4% of answers. This position stems from the premise that Mexico is an important part of the NAFTA region, a fully integrated production area that exports to the world. In that context, any protectionist measure would weaken the region’s competitiveness in the world. Therefore, they propose to seize the opportunity to deepen liberalization and expand NAFTA to areas not initially included, such as communications, the energy sector, as well as to extend agreements to the electronic sector, intellectual property, including anti-corruption rules. To strengthen its preferences, the government integrated a group of experts to define the negotiating strategy and lead the negotiations, with the same economists who negotiated the NAFTA in the first place. The group has already stated the main tenets. First, to educate society in the benefits of NAFTA, which has already realized to a greater extent than expected its foremost initial goal: to expand exports. Second, to reiterate that the greatest beneficiaries of the agreement are the consumers, without mentioning how these are first and foremost also producers and workers. Third, to extend NAFTA including themes agreed for the TPP and also discussed in the TTIP, eliminating all restriction to trade and to capital. It is still in doubt whether these proposals to “modernize” NAFTA would not intensify the wage repression experienced by the Mexican labor sector since the reforms and NAFTA, and as some critics of TTP and TTIP suggest (Bivens, 2015; Felbermayr, et al., 2013).

The business sector, with its 67 responses appears divided. While some 10% of them propose to negotiate NAFTA, around 16% takes a moderate stance, either rejecting the negotiations in the face of uncertainty and fear that the results will be negative or seeking to expand markets, strengthen the domestic market and to redefine sectoral policies, industrial, agricultural, energy and technology policies.

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4 These are the opinions expressed in articles from the most widely circulated daily and weekly newspapers and in specialized journals, between September 15, 2016 and March 15, 2017. They include 175 notes and articles of some 228 people coming from government, political leaders, representatives of unions, NGOs, academics and entrepreneurs.

5 Modernize is the euphemism for renegotiate, since so many people rejects the idea of negotiations.
A diverse group (academia, politicians, and unionists) advocates renegotiating the agreement on condition that it is beneficial to the country and under certain circumstances, namely not building the wall, not imposing border adjustment taxes or any other taxes. To reach positive agreement for Mexico, or if the US decides to abandon NAFTA, the preferred alternative is to go the WTO. Finally, there is a relevant group of political, intellectual and academia actors, proposing not to negotiate, abandon NAFTA and go to the WTO.

A consensus emerges, with 45% support for the need to reform the current economic model, with or without a renegotiation of NAFTA, with industrial policies that reintegrate productive chains, generate added value and national employment, as well as provide protection to agriculture, all with a view to strengthening the market. Finally, the diversification of the destination of export markets gains strength. Some of these proposals would clash with government preferences, but echo Trump’s policy. Almost all of these priorities contradict the liberal NAFTA economic policy model.

It is our opinion that Mexico must seize the current opportunity, redefine the policies outlined in NAFTA, and undo the mistakes made in the initial NAFTA negotiations and the structural reforms of the mid-1980s. The answer to this external shock, induced by the stubborn will to change the norms that had governed bilateral relations for the last 24 years, could be the opportunity for a serious reform to the model of national development. There will be losers and winners, it is true. Depending on the players who would lead the changes it would be expected that the balance will not be adverse to labour as it was for the last 30 years.

With oil running out and the US restricting investments and imports of goods made in Mexico, and repressing remittances, the country would not have the resources to invest, accumulate capital and expand production. As in world crises and wars, it is necessary to change course, reindustrialize Mexico and strengthen agriculture.

Following are some premises for change, emerging from our own recollection and reading public opinion in Table 5:

i) To figure first the direction of the country and its economy and, in this context, establish the space of relations with the US and the rest of the world;
ii) The trajectory of the national economy must rest on sustained and sustainable growth, the generation of more and better jobs to reverse the decline of labor in the functional distribution of income, and reduce inequality;
iii) Protect agriculture, to ensure food security, as the US, EU, Japan and China already do, reversing the imported content of consumption of maize, beans, rice, soybeans and other primary food products;
iv) An agricultural policy with increases in yields and productivity, not oriented exclusively to exports, but to ensure food security and supply inputs to manufactures;
v) To launch an active industrial policy that incorporates labor and added value, promotes research and, in reaction to the border tax and the import tax, a tariff policy that eliminates negative effective protection and protects national value added;
vi) To structure an energy policy for development, in which the oil that still remains and is to be found becomes a development factor and integrating clean and alternative energies;
vii) To reject elements accepted in the TPP, either as a negotiating strategy with the US or as a policy to expand Mexico's export markets, in the economic restructuring process. That would only aggravate the structural problems generated by the way NAFTA was negotiated. They will deepen the now questioned denationalization of the economy;

viii) In this context, the academy, unfastened from political and economic power centers, must study and explain reality and propose objective interpretations and lines of action.

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“Unemployment”: misinformation in public discourse and its contribution to Trump’s populist appeal
Edward Fullbrook  [University of the West of England, UK]

It seems generally agreed that populism tends to rise up after a prolonged period in which governing elites have blocked from public discussion the declining economic welfare of a significant proportion of the population. These declines take two forms, usually simultaneously and interdependently:

1. A decline of income and wealth in absolute terms and/or relative to the elites and their agents.
2. A decline in key characteristics of employment through time (quality, security, real and relative wage levels) creating persistent high level of unemployment.

Though the latter is interdependent with the former, the real level of unemployment can be hidden. Elected elites and their patrons have a strategic interest in holding back public awareness and discussion of both declines for fear of losing elections and for fear that the upward redistributions of income and wealth will be stopped or even reversed.

Until three years ago the ruling elites in the United States were extremely successful at keeping the severe upward income and wealth redistribution that had been “progressing” since the early 1970s out of public view. GINI coefficients and graphs showing from 1970 onwards median income levels and relative shares of the bottom 90% and bottom 50% were never part of public discussion and but rarely of economics. Instead income discussion focused tightly on GDP and GDP per capita, which with rare exceptions increased year by year.

True, from the early 2000s the Real-World Economics Review featured numerous papers calling attention to the long-term upward redistributions taking place in the United States, and

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in other venues Saez and Piketty did the same. But it was not until the publication of Piketty's empirical blockbuster that a substantial hole was opened in the public wall of silence regarding the 40-year relative income and wealth decline of a large proportion of the American population in particular. This cultural breakthrough has made it marginally acceptable for the declining fortunes of the majority of citizens to be mentioned in corporate media and even in some neoclassical journals. Without Piketty's book the rise of Trumpism would have been for our era's overriding neoliberal narrative even more of an unexpected and inexplicable historical phenomenon.

“Unemployment”

The systematic distortion and non-reporting by both journalists and economists of changes in income and wealth levels is not the only way in which the reporting and discussion of the economy has been fundamentally distorted so as to keep hidden the decline in the economic welfare of a large proportion of America’s population. “Unemployment” is a poignant everyday word, but the media and the economics profession have come to give a meaning to “unemployment” radically different from the meaning that people following the news and voting give it. For them, to be “unemployed” means to want but to be without full-time work.

Led by the Bureau of Labor Statistics (BLS), the economics profession has defined sub-categories of “unemployment” in the real-life meaning of the word and then cunningly reintroduced the same symbol to designate one of those sub-categories – the one which is usually the smallest – of “unemployment” in the real-life sense. Let us look at how this is done.

The BLS’s website https://www.bls.gov/cps/ says:

“There is only one official definition of unemployment – people who are jobless, actively seeking work [in the last 4 weeks], and available to take a job, ...”

There are three idiosyncrasies in this definition.

One idiosyncrasy is immediately apparent. The definition says in effect that if an unemployed person becomes too discouraged to look regularly for a job, then they are no longer “unemployed”. It is only those who retain some immediate optimism regarding overcoming their employment situation that will be counted as “unemployed”. In other words, under the BLS definition the people who are most psychologically affected by their unemployment are disqualified from being counted as “unemployed”. The medical equivalent would be to say that someone who is chronically ill and who has been discouraged from finding a cure for their illness is no longer “ill”.


The other two idiosyncrasies of the BLS’s use of the symbol “unemployment” are, at least partially, hidden by the meanings it assigns to words in its definition.

It defines “jobless” to mean without any kind of a job whatsoever:

“People are considered employed if they did any work at all for pay or profit during the survey reference week. This includes all part-time and temporary work, ...”

So, for example, if an unemployed machinist or supervisor finds eight hours of work in a week as a dishwasher they are by the BLS definition not “unemployed”. But in the real lives of the machinist and the supervisor and in the minds of their family and friends and the social milieu in which they live, they are unemployed.

The meaning which the BLS assigns to “actively seeking work” is no less unworldly. This phrase is interpreted so as to exclude many unemployed people who are looking for work. It makes a distinction between what it terms “active methods of job search” and “passive methods of job search”. Examples of “active methods” include: contacting “an employer directly or having a job interview”, and “[S]ubmitting resumes or filling out applications”. “Examples of passive methods” include looking for “job openings that are posted in newspapers or on the Internet”. This means that if in the last four weeks a real-life unemployed person searches every week or even every day the advertisements for job openings in newspapers and on the Internet and in the windows and on the walls of employment agencies and finds no jobs advertised for which they might reasonably apply or inquire about, then all that effort does not qualify that unemployed person as “looking for work” and therefore in the official statistics they are not counted as “unemployed”. And of course the more serious the unemployment situation in an economy or sector thereof, the more likely it is that there are no jobs for which an unemployed person might reasonably contact an employer or fill out forms.

“Labor underutilization”

To avoid referring to the unemployed in general and calling attention to their numbers and their plight, the Bureau of Labor Statistics has invented the term “labor underutilization”. It gathers and publishes statistics for 6 categories of “underutilization” expressed as percent and calls them: U-1, U-2, U-3, U-4, U-5 and U-6, the first five being “underutilization” subcategories of U-6. U-3, which is labelled the “official unemployment rate”, is based on what, as above, the BLS calls “unemployed”. U-5 includes U-3’s “unemployed” plus what it calls all “persons marginally attached to the labor force” which it defines as the unemployed “who currently are neither working nor looking for work (remember what this “looking for work” means) but indicate that they want and are available for a job and have looked for work sometime in the past 12 months.” U-6, in addition to “persons marginally attached”, includes “people employed part time for economic reasons”, meaning those who cannot find full time employment, like the machinist who washed dishes last Friday night. According to the BLS figures, in January 2017 the number of unemployed people who fall into its U-6 category comprised 9.4% of the civilian labour force, nearly twice its U-3 rate. But U-6 still covers only a subcategory of the real-life unemployed. In does not include people who are unemployed

3 U-4 is based on U-3’s “unemployed” plus “a subset of the marginally attached”.
and who “want and are available for a job” but have not “looked for work” in the past 12 months. These workers might be called very discouraged, but the fact that they are very discouraged does not make them any less unemployed.

### Total unemployment

Although the Bureau of Labor Statistics does not compute “U-7” or “U-8” rates, it does count and publish the number of people wanting work but who have not “looked for work” in the past 12 months.

In their 2017 paper, Flavia Dantas and L. Randall Wray note, and their Figure 4 below shows, that when this category of the unemployed is also counted it “boosts the unemployment rate to 12 percent”.\(^4\) This means, as Jan Kregel says in his introduction to their paper, that when it comes to reaching full employment “we are still roughly 20 million jobs short of the mark”.

![Figure 4 Unemployment Rates, 1994–2016](image)

But even 12 percent may be a serious underestimation of the real-life unemployment rate in the United States at the time of Trump’s election, given that the very discouraged unemployed tend to have no contact, direct or indirect, with the BLS’s system of counting. Because no official statistics are collected for this category of unemployment, we are here very much in the realm of the statistically semi-unknown. Nonetheless there exist various estimates of what

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the total unemployment rate might be, one of which, from Shadow Government Statistics is shown in the following graph.

Conclusion

Just as failing to acknowledge the upward redistribution of income and wealth does not make its consequences go away, so also defining the majority of the unemployed out of official existence does not eliminate them from real-life existence. But it does humiliate and alienate them by making them feel that their unemployment is a personal failure rather than a failure of the system, of the economy, to provide enough jobs for the number of people wanting and needing them. And when high unemployment persists over a period of years and the flow of public misinformation about it also persists, the probability becomes high that the long-term unemployed and their social milieu will cease to believe the misinformation and cease to support the political system that generates it.

Statistics, like everything else, can be used or misused, kept clean or subverted. When public attention is focused on GDP and income per capita and never on relative shares and median income and when, unknown to the many, “unemployment” in public discourse is defined to exclude most unemployment, then statistics instead of serving as means of enlightenment, serve as means of screening ourselves off from reality. In the end, however, reality breaks through. And that is where we are today and why you are reading about Trumponomics.

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