

# The American Gordian Knot and Alexander the Great is not in sight

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A long longed-for breath of fresh air is blowing across the country, replacing the hot air bellowing from the Trump administration. Yet, the challenges facing the Biden-Harris team are formidable, and most likely insurmountable.<sup>1</sup>

Let us first consider them from a birds-eye view. Western Civilization once again finds itself at a crossroads in the middle of the Information Revolution and well on the way to a post-industrial knowledge economy. According to the historical record such economic transformations are always complicated, never smooth, and seldom free of conflict. The transition from Feudalism to Capitalism was no child's play. After all, France had four revolutions during the transition while England had two major upheavals in the 17th century during which one king was beheaded and another deposed through machinations that resembled a modern-day *coup d'état*. Insofar as such transformations reshuffle the political, social, and economic hierarchy, it should not surprise us that conflict ensues in their wake. It is difficult to give up power and privilege or anything else for that matter.<sup>2</sup> This was already obvious to the ancient Greeks.<sup>3</sup>

While the big picture helps us understand the context for the current predicament, it is crucial to recognize that the U.S. is facing **20** formidable headwinds within the political, cultural, social and economic realm. Moreover, they are all intertwined in complex feedback mechanisms too numerous to mention.

## Political dysfunction has become a permanent feature of the U.S. system

1. The U.S. constitution is anachronistic. A product of the Enlightenment, it is no longer effective at providing a mechanism for the General Will Gemeinwille of the citizens to become the law of the land.<sup>4</sup> After all, Al Gore received half a million more votes than Bush Jr., yet did not become president and Hillary Clinton received 3 million more votes than Donald Trump and yet she also lost. Hence, the U.S. is no longer a functioning democracy in spite of the elections, because some votes count more than others.

For the presidential election of 2020 300,000 California voters send one elector to the electoral college that officially chooses the president, whereas in the states of Montana, Wyoming, South and North Dakota every 140,000 voters do so. Put another way, the votes of the citizens of those four states are twice as important as those of the citizens of California. Such weighting schemes also account for the non-representative nature of the Senate. There

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<sup>1</sup> J. Komlos, "Reaganomics: A Watershed Moment on the Road to Trumpism," *The Economists' Voice*, 2019, 16: 1.

<sup>2</sup> D. Kahneman, J. L. Knetsch, R.H. Thaler: "Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias," *Journal of Economic Perspectives*, 5. (1991), H. 1, S. 193-206.

<sup>3</sup> Thucydides: *History of the Peloponnesian Wars*, around 411 BC.

<sup>4</sup> J.J. Rousseau: *The Social Contract*, Amsterdam 1762.

California has two representatives whereas the less populated 22 states with population total equal to that of California send 44 senators. A functioning democracy should enable the general will of the population to be the rule of the land.<sup>5</sup> No wonder that the general will cannot emerge in Washington with such an archaic system.<sup>6</sup>

2. With the large role of money in politics, and with the average wealth of the top 1% of households reaching 25 million \$, the US has morphed into a plutocracy.<sup>7</sup> The mistake of the Supreme Court of equating donating money for political purposes with free speech acerbated the problem considerably by increasing the power of money in politics. Trump would never have won the primaries in 2016 had he not had his own money to finance his campaign initially.

3. The military-industrial complex has a strong influence on the political process. The 720-billion-dollar annual expenditure on the military is a humongous drain on the federal budget away from civilian uses. The military adventures in Iraq and Afghanistan have cost trillions of dollars.

### **Cultural challenges are insurmountable**

4. The defective dominant **ideology** of neoliberalism characterized “by a huge overestimation of the wisdom of market processes,” has seeped into the popular culture to such an extent that it is difficult to make the citizenry understand that the best government is not one that governs the least.<sup>8</sup> It easy for market aficionados to label progressive politicians who aspire to improve the condition of the poor through government programs as socialists.

### **Social challenges are deeply rooted**

5. Endemic **racism** haunts the social fabric. The lack of jobs, the mediocre educational system, and the limited safety net available to minorities makes it difficult to improve their life. The unemployment rate among minorities is usually twice that of whites. African Americans are 1.8 times as likely to be poor than their share of the population and their annual median household income was \$24,600 less than that of whites in 2016. They are looked down upon because of their poverty, but their poverty is due to lack of opportunity and inferior schools available to them.

6. It is widely recognized that the economy in **unjust** and is not working for half of the population. The top 1% earn 20% of national income. The bailouts of the financial system in 2008 left all the banks in the top 1% of the wealth distribution. None of them sank down into the middle class. Dick Fuld, who bankrupted Lehman brothers, still has \$250 million in the bank, while Angelo Mozilo who bankrupted Countrywide Financial has \$600 million. However, eight million families were callously evicted from their homes without mercy. Such asymmetric

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<sup>5</sup> M. Sandel: “Populism, liberalism, and democracy,” *Philosophy & Social Criticism* 44. (2018), H. 4, S. 353-359.

<sup>6</sup> G. Packer: “We Are Living in a Failed State,” *The Atlantic*, June, 2020.

<sup>7</sup> B. Page, M. Gilens: *Democracy in America? What Has Gone Wrong and What We Can Do About It*, Chicago 2017.

<sup>8</sup> J. Komlos. *Foundations of Real-World Economics: What Every Economics Student Needs to Know*, 2<sup>nd</sup> edition, Routledge: 2019.

bailouts are indicative of the power of the oligarchy that fueled the populism harnessed by the Trump presidency.<sup>9</sup>

7. The primary and secondary **educational system** remains mediocre. So, it does not prepare the next generation for the IT revolution. Furthermore, a large share of the poor is unable to afford college education so important in today's economy. Hence, the significant demand for IT professionals is unmet. Yet, money is not available to improve the educational system.

8. **Life expectancy** was falling even before the pandemic. The 150,000 people who die of "deaths of despair" provide evidence of the immense anxiety at the low end of the income distribution.<sup>10</sup> Such epidemic of suicide does not occur in a good economy.

### **The economy is out of balance**

9. **Anemic GDP growth** is the new normal in the 21<sup>st</sup> century and is not likely to change. Per capita growth has been 1.1% between 2000 and 2019 compared to 2.1% during the three final decades of the 20<sup>th</sup> century.<sup>11</sup> The U.S. has been producing about \$1 trillion less after the 2008 financial crisis than its potential according to projections prior to the crisis. But as Larry Summers pointed out, even before the crisis, there were no signs of an overheating economy, despite the accommodating monetary policy, explosion of debt and "imprudent lending".<sup>12</sup> Consumer prices, wages, and output were not growing excessively. Instead people were dropping out of the labor force by the millions because of limited opportunities. There were also millions who could only find a part-time job or gig work.

This led Summers to formulate the secular stagnation thesis: because of inadequate aggregate demand, the post-industrial service economy is going to be stuck in low gear for the foreseeable future. Hence, there is no reason to think that an acceleration of economic growth will ease the competition for income share or free up resources for redistribution.

10. Anemic growth is due in part to the **productivity slowdown** and there is no reason to think that that will improve.<sup>13</sup> Total factor productivity grew at an annual rate of 1% between 1988 and 2007. However, between 2007 and 2019 it was halved to 0.5%.<sup>14</sup> That implies that innovation and entrepreneurship can no longer be relied upon as the engines of growth.

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<sup>9</sup> J. Komlos, "The Triumph of Trumpism," *Journal of Contextual Economics, Schmollers Jahrbuch*, 137 (2017), 4: 421-440.

<sup>10</sup> A. Case, A. Deaton: *Deaths of Despair and the Future of Capitalism*, Princeton: Princeton University Press, 2020.

<sup>11</sup> 4<sup>th</sup> Quarter to 4<sup>th</sup> Quarter. Federal Reserve Bank of St. Louis: series A939RX0Q048SBEA.

<sup>12</sup> L. Summers "U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound," *Business Economics*, 49 (2014), S. 65-73; L. Summers, "Demand Side Secular Stagnation," *American Economic Review* 105 (2015), 5, 60-65.

<sup>13</sup> R. Gordon: *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War*. Princeton 2016.

<sup>14</sup> Federal Reserve Bank of St. Louis: series MPU4910013. Labor productivity fell from 2.4% to 1.4% in the same period; series MPU4900063.

11. The endemic **budget deficit** implies that the government has few possibilities for major project initiatives that could solve any of the structural problems faced by the economy even if it could break through the political gridlock.<sup>15</sup> This also means that the interest payments on the national debt will continue to snowball.<sup>16</sup> In 2018 the average interest rate on the debt was 2.3% but if it increases to normal levels around 5%, the burden of debt would become precarious.<sup>17</sup> This is ominous since the total public debt as a percent of GDP jumped from 103% to 135% as a consequence of the corona crisis.<sup>18</sup>

12. **Private debt** is also excessive including student debt (\$1.6 trillion as of 2019) and credit card debt (\$0.9 trillion); this implies that aggregate demand will be subdued in the future because people in debt will have to curtail their spending.

13. **Technological unemployment** will be a permanent threat unless we can lower the number of hours worked per worker as we did in the 1930s and guarantee income and jobs to all. The proliferation of robots means that GDP growth is decoupled from employment, as firms switch from human labor to robot labor. People are becoming increasingly redundant through automation and endemic underemployment.<sup>19</sup> That implies that basic income and job guarantee programs will need to be on the political agenda.<sup>20</sup>

14. The official **unemployment** rate is usually half of the true rate, because its definition is far too stringent. This leads to an unjust labor market which excludes many who are not even considered unemployed. Even before the pandemic 4.9 million adults were considered out of the labor force even though they did want to work and another 4.3 million were working part-time involuntarily, because they were unable to find full-time employment.<sup>21</sup> Obviously, the supply of full-time jobs was inadequate to meet demand. The true unemployment rate was closer to 7% instead of the much-heralded official rate of 3.5%.<sup>22</sup>

15. **Stagnating or declining wages** is frustrating and is creating distributional conflicts and fuels white nationalism. Amazingly, the real median wages of men employed full time at the end of 2019 was still at the level of 1979.<sup>23</sup> Women's wages were merely \$114/month more than they were in 2004.<sup>24</sup>

16. The **pandemic** of 2020 is a large-impact improbable event that is often referred to as a "black swan".<sup>25</sup> It struck a fragile economy that magnified its impact and revealed the need for fundamental reforms that would create a fairer and more robust socio-economic system.

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<sup>15</sup> K. Rogoff: "Government Debt Is Not a Free Lunch," *Project Syndicate*, December 6, 2019.

<sup>16</sup> H. Long: "Fed Chair Powell warns Congress that \$1 trillion budget deficits are unsustainable," *The Washington Post* February 11, 2020.

<sup>17</sup> D. DeSilver: "5 facts about the national debt," Pew Research Center, August 17, 2017.

<sup>18</sup> Federal Reserve Bank of St. Louis: series GFDEGDQ188S.

<sup>19</sup> E. Brynjolfsson, A. McAfee: *The Second Machine Age. Work, Progress, and Prosperity in a Time of Brilliant Technologies*. New York 2014.

<sup>20</sup> J. Komlos: "Despair at Full Employment: The Urgency of a Fairer Labor Market," *Challenge: The Magazine of Economic Affairs*, 61. (2019): 5-6, 363-386.

<sup>21</sup> Federal Reserve Bank of St. Louis: series NILFWJN and LNS12032194.

<sup>22</sup> Federal Reserve Bank of St. Louis: series U6RATE and UNRATE.

<sup>23</sup> Federal Reserve Bank of St. Louis: series LES1252881900Q.

<sup>24</sup> Federal Reserve Bank of St. Louis: series LES1252882800Q and CPIAUCSL.

<sup>25</sup> N. Taleb: *The Black Swan: The Impact of the Highly Improbable*. New York 2007.

Note, that such unforeseen disasters have been appearing at the national level at 5-year intervals so far in the 21<sup>st</sup> century: the DotCom bubble, 9/11, the Meltdown of 2008, and now the coronavirus and the wildfires and hurricanes of global warming are also devastating the land. In other words, such unforeseen events occur with sufficient regularity that we should take their threats much more seriously than we have so far.

17. An endemic **trade deficit** reached 578 billion \$ in 2019 means that the U.S. will continue to export jobs that will hinder an inclusive labor market.<sup>26</sup>

18. **Globalization** means that low-skilled workers must compete with their lowerwage counterparts around the globe, partly because the workers have no institutional support, and partly because educational opportunities are so limited for a large segment of the population that they do not have the skills necessary to take advantage of the new economy.

19. **Infrastructure** is depreciating. This will continue to weigh on the economy because infrastructure is its lifeblood. Yet, the government does not have the money to make the necessary investments after its tax giveaways.

20. The U.S. economy has morphed into a **bailout capitalism** supported by money creation of the Federal Reserve. Its assets in September of 2008 were just 0.8 trillion \$. In 2021 they are 7.1 trillion \$. That is an increase by a factor of 9. How long can such a bailout capitalism work?

## Conclusion

Donald Trump boasted before the recession about “an unprecedented economic boom,” adding that we have “the hottest economy anywhere” and that “our economy is the envy of the world,” because “an economic miracle is taking place in the United States”.<sup>27</sup> He mistook a Potemkin village for reality.<sup>28</sup> According to the above evidence, the structure of the economy has been fundamentally in permanent disequilibrium. The political gridlock implies that none of the above 20 challenges can be addressed properly. Hence, there is no reason to think that the future economy will be socially more inclusive than it has been. These are the reasons to be skeptical about Joe Biden’s ability to cut through this convoluted Gordian Knot and restructure the economy so that it would satisfy the needs and aspirations of the U.S. population.

The country is too divided after four decades of dubious economic policy and after four years of a nasty populism it is also too nervous to unite behind any leader short of Alexander the Great. Sure, Franklin D. Roosevelt was able to respond effectively to the Great Depression with the New Deal, but his party controlled both houses of Congress throughout his 12 years in office and during most of the time by very large margins. Sure, Lyndon B. Johnson managed to pass the Civil Rights Act of 1964 through Congress, but he too had majorities in both houses by decent margins. Such fortune, however, did not smile on Biden. Yet, the challenges are as formidable, nay, even more so than those of his great predecessors,

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<sup>26</sup> U.S. International Trade in Goods and Services FT 900, Exhibit 1.

<https://www.census.gov/foreign-trade/Press-Release/2020pr/04/index.html#ft900>.

<sup>27</sup> D. Trump: Remarks by President Trump in State of the Union Address, February 6, 2019 and February 4, 2020.

<sup>28</sup> J. Sachs: “America’s Illusions of Growth,” *Project Syndicate*, May 14, 2019.

because they have been accumulating for decades and getting worse. Of course, we wish him well. Even if he fails to solve any of the above problems, it will be a great improvement over the constant barrage of impure thoughts and actions that emanated from the Trump White House. Nonetheless, it would be prudent to acknowledge that the 20 challenges will hang over his administration, the country, and the Western World like the sword of Damocles for some time to come.

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