

## Viewpoints

### The Triumph of Trumpism

By John Komlos\*

#### Abstract

Donald Trump won in 2016 largely because enough voters in three states, all in the Rust Belt which had voted for Barack Obama in both 2008 and 2012, switched their electoral votes from Democratic to Republican. Economic dislocations played a crucial role in these states to induce them to vote for an anti-establishment candidate. The sources of the dislocation were the development of a dual economy characterized at one end by low and stagnating wages, increasing debt, downward social mobility, declining relative incomes, and the hopelessness accompanying them while at the other end of the income distribution the economy was booming.

*JEL Codes: F13, F60, F66, H11*

#### 1. Introduction

The triumph of Trumpism has many sources. The Republicans can count on capturing most of the West, the Great Plains, and the Confederacy – from Idaho through Texas and then on to South Carolina. Yet, the population in these states is insufficient for a majority in the Electoral College. To reach 270 votes, Republicans need the support of some swing states or they need to flip some of the Democratic strongholds.<sup>1</sup> This is precisely what happened. Wins in just three of these states, Pennsylvania, Michigan, and Wisconsin put Donald Trump over the top. They have not voted for a Republican president since 1988. They all chose Barack Obama in both 2008 and 2012. Thus, one needs to understand why these three states swung into the Republican column. A

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<sup>1</sup> Trump support was more likely in “racially isolated communities with worse health outcomes, lower social mobility, less social capital, greater reliance on social security income and less reliance on capital income” (Rothwell and Pablo Diego-Rosell 2016).

change of a miniscule 39,000 votes (!) from Trump to Hillary Clinton in these states would have clinched the victory for her (Table 1). That would have meant a change in votes for Trump of just 0.8% in Pennsylvania, 0.2% in Michigan, and 0.8% in Wisconsin.

*Table 1*  
**Electoral Votes Gained in Three Pivotal States  
in the Election of 2016**

	Trump's Plurality	Electoral Votes
PA	44,292	20
MI	10,704	16
WI	22,748	10
Total	77,744	46

These Rust Belt states were devastated by the relentless decline in manufacturing and the benign neglect by five administrations. This essay outlines the economic forces that fanned the flames of frustration of those white men – and they were mostly white men – who lost all hope in the establishment's willingness to help them.<sup>2</sup> So their frustration grew to the boiling point until they were willing to cast their lot for a “narcissistic sexual harasser and a routine liar” (Brooks 2017). In normal times he would have been considered a laughing-stock or a “carnival barker” (Berman 2015), even if he often brags that he is a “very stable genius” (CNN 2017).

Revolutions come in many guises from the Glorious Revolution of 1688 to the Velvet Revolution of 1989. However, they do have in common that they topple the established political order. In this sense, the election of 2016 was nothing less than revolutionary (cf. Wolffe 2016). Like all such turning points, it overthrew the establishment and as practically all historical revolts of the masses, this, too, is built on deep discontent that grew out of the socio-economic forces unleashed by the failure of economic policies to provide inclusive growth (cf. Anon. 2016). The process, starting with Reaganomics, was fueled by globalization and the IT revolution, and finished off with the Financial Crisis of 2008. These grievances spanned three decades and generated enough anger and frustration that the discontented were willing, instead of “storming the Bastille” to “drain the swamp” whatever may follow.<sup>3</sup>

<sup>2</sup> “Donald Trump’s astonishing victory ... has made one thing abundantly clear: too many Americans – particularly white male Americans – feel left behind” Stiglitz (2016). 63% of white men voted for Trump as opposed to 31% for Hillary and 71% of white men without a college degree vs 23% respectively.

<sup>3</sup> See also Friedersdorf (2017).

## 2. Evidence of Social Frustration

Evidence of discontent abounds. It manifests itself in the abandoned factories, dilapidated homes, and dysfunctional neighborhoods of the Rust Belt. It affects the anxiety-ridden underclass, who are stuck spatially and economically and see no way out of their hopeless predicament and far too often turn to acts of desperation. The high mass murder rate is also a function of the inadequate availability of mental health services (cf. Komlos 2015). There were 384 mass shooting incidents in 2016. Assassination of police officers or shooting at the Republican baseball practice in D.C. similarly indicate the amount of venom that has accumulated in people.

Income trends mirror these frustrations. In 2016 real median household income in Ohio, Wisconsin, and Michigan were still \$5,900, \$6,000, and \$9,300 below its level at the end of the 20th century.<sup>4</sup> Alone among these states, only in Pennsylvania did median income increase – by a mere \$122 per annum. This 16-year decline in incomes is unprecedented. No wonder that the opioid epidemic hit the Rust Belt with a vengeance. These states experienced a higher overdose death rate than the national average (Hedegaard, Warner, and Minino 2017). Pennsylvania had 3,500 overdose deaths in 2015 reaching a rate of 26 per 100,000 (Sapatkin 2016). In Wisconsin 1,031 people died of drug overdose in 2016, a fourfold increase from the year 2000 (Wisconsin Department of Health Services 2018). Michigan had a rate of 20. These were the highest in the country along with neighboring West Virginia, Ohio and Kentucky.<sup>5</sup> Per capita drug use in U.S. is more than three times as high as in Western Europe, and drug related deaths are eight times as high.

“Deaths of despair” have risen markedly in the U.S. Drug overdose deaths were about 6,000 in 1980 while by 2017 they rose to 70,000, i.e., an increase by an amazing factor of 8+ (Katz 2017; National Center for Health Statistics 2018). Other deaths of hopelessness include alcohol poisonings, suicides, and chronic liver diseases from excessive alcohol consumption. The upshot is a “shocking increase in midlife mortality” among white Americans. The U.S. is the only rich country to experience such an increase in mortality in recent times. Most affected are white men with a high school education or less. Their mortality rates have been increasing since the turn of the 21<sup>st</sup> century while those with a college education are immune from this trend (cf. Case and Deaton 2017). Blacks and Hispanics were also largely unaffected by these deaths of despair: they did not experience the shock of downward mobility as did whites.

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<sup>4</sup> Other neighboring states where real median household income is still below its late-20<sup>th</sup>-century level include Indiana, Kentucky, West Virginia, and Virginia.

<sup>5</sup> Ohio’s overdose deaths increased from under 1,000 in 2004 to 4,000 by 2016 reaching a rate of 30 per 100,000 (cf. Lurie 2017).

The incarceration rate is also a sign that people are unable to find their place in society. There were no fewer than 6.7 million people (2.7% of the adult population) “supervised” in the U.S. in 2015; this includes people on parole or probation as well as 2.2 million incarcerated people (Bureau of Justice Statistics 2017). This is the highest rate of incarceration anywhere in the world: with 5 percent of the world’s population, the U.S. has 23% of its prisoners (Hartney 2017).<sup>6</sup>

The number of bankruptcies shows the difficulties people have to meet their financial obligations (Schor 1999). There were 0.9 million bankruptcies in 2014 – up from 0.3 million in 1980, doubling on a per capita basis (Bankruptcy Action 2017; Krulick 2017). We might also consider that 9.3 million homeowners who lost their home between 2006 and 2014 must have some bitterness that predisposed them to want to smite the system that let them down.<sup>7</sup>

Persistent and endemic poverty indicates that the market economy leaves millions struggling. In 2017, a two-person household was considered poor if its total income was below \$17,000 per annum (US Census Bureau 2017a). That meant that 45 million people were living in poverty, 15% of the population, as high a rate as in 1966, one year after Medicare began under the Johnson administration (US Census Bureau 2017b). A further 15 million people live slightly above the poverty, defined as 100–125% of the poverty threshold (Hokayem and Heggeness 2014).

Consider, furthermore, that in July 2017 40% of the population considered themselves struggling financially and another 3% was suffering (Gallup 2017). That adds up to no less than 140 million people. The Affordable Care Act has reduced the number without health insurance from 16% in 2010 to 8.6% of the population in 2016 but that still left 28 million people without the security of insurance and its rollback is on the political agenda of the Republican Party (Avery, Finegold, and Whitman 2016). Among those below the age of 65 the uninsured rate was 13% even in 2016 and is also much higher among some groups: among the poor it is as high as 26% and among Hispanics it is 28% (*ibid.*).

Obviously, all the above-mentioned social developments affect anxiety and mental health of the population. The number of people seeking outpatient care for depression in the U.S. has increased from 0.7 percent of the population in 1987 to 2.3 percent in 1997 and then to 2.9 percent by 2007 (Olfson et al. 2002; Marcus and Olfson 2010). The use of medication among these patients increased from 37 percent to 75 percent in the same time span. In 2014 16 mil-

<sup>6</sup> Also note that in many states, ex-felons are denied the right to vote.

<sup>7</sup> This number includes those who went through a foreclosure, surrendered their home to a lender, or sold their home via a distress sale according to the National Association of Realtors (cf. Kusito 2015).

lion adults (6.7%) experienced at least one major episode of depression (Anxiety and Depression Association of America 2017).

In short, there are a myriad of symptoms of anguish among the American underclass, the ones Hillary Clinton ungenerously christened a “basket of deplorables.” These vulnerable groups were rife for Trump’s message of making America great again, to bring back jobs, and to blame immigrants and Muslims for their ills. Scapegoating is standard practice among strongmen. So Trump hit a home run with his “I love the poorly educated” (Hafner 2016). Hopelessness, frustration, and inequality are mighty political forces and Trump was able to capture its torrents and harvest the anger of the have-nots, those who reached for the American Dream but found a nightmare instead.

### 3. The Principles of Reaganomics

Economic data indicate that Ronald Reagan’s presidency was the watershed. Arguably the socio-economic problems that led to Trump began or were exacerbated under his tenure. That is not to say that it became inevitable, but it became increasingly more difficult with each passing year. Reagan embraced a policy of trickle-down economics. The claim was that cutting taxes of the deserving super-rich would provide incentives to create jobs through increased investments and would subsequently “trickle down” to the masses so they will benefit from the decreased taxes eventually. In addition, lower taxes meant an increase in disposable income and that would provide an incentive for people to work harder and entrepreneurs to take more risks, invest more, thereby creating economic growth and boosting incomes. But that was all theory, based on too many unwarranted assumptions.

There were also plenty of counterarguments. Full-time employees were not likely to increase their work hours. And new investments would not be undertaken, unless new opportunities arose and those were limited by innovation, at least domestically. And what if the rich spent their additional income on conspicuous consumption buying foreign luxuries or traveling abroad, the trickling down would occur elsewhere. They could also buy government bonds – foreign or domestic – instead of investing in physical capital. So, there were plenty of open questions. The main point is that the relationship between tax cuts and investments and economic growth in general is hardly a straightforward one.

One might have argued just as well that one could increase the purchasing power of the lower classes which, in turn, would increase aggregate demand, thereby trickling up to the corporations as profits increased and that would provide an incentive to invest. The poor and the lower-middle class had much more pent-up demand than the people at the top who were satiated. And if one was serious about boosting the economy why not make sure that investments actually do happen, and jobs are actually created by attaching conditions to tax

rates? Or one could improve human capital formation by bolstering the school system? In other words, there were myriad of direct ways to foster economic growth with inclusive prosperity if the elite had been serious about it.

#### **4. The Failure of Reaganomics as the Foundation for Inclusive Growth**

The trickle-down effects of the tax cuts had the viscosity of molasses as next-to-nothing reached the middle- or lower classes (Komlos 2018). Nobel Prize winning economist Joseph Stiglitz argues that “President Ronald Reagan began hollowing out the middle class and skewing the benefits of growth to those at the top ...” (2016). Reagan cut the marginal tax rate for the rich in half. The poor and lower-middle class received crumbs while the rich became superrich.

To be sure, average citizens can be manipulated by learning that their take-home pay will increase, regardless of the amount (Frank 2004; Stanley 2015; Cochrane 2017). Across-the-board tax cuts benefit everybody. However, for Everyman on Main Street the tax cuts meant absolutely nothing for the improvement of their long-term prospects. On the contrary, it meant that their social services, and access to education, that is to say their quality of life will diminish. Moreover, it also meant that their relative income declined and with that their political power as well. In stark contrast, for millionaires the Reagan tax cuts were a genuine game changer (Galbraith 2008). They brought a humongous windfall of hundreds of thousands of dollars which they used strategically to further their economic and political power (Bartels 2016). Sure, they might increase their conspicuous consumption somewhat but the smart money invested much of it into strengthening their political power by lobbying for deregulation and by funding think tanks that hired economists to support their ideology.<sup>8</sup> This was crucial in spreading the free-market ethos that advocated small government, free trade, and deregulation until it became the dominant ideology.<sup>9</sup> Everyman on Main Street was no longer capable of discerning their own self-interest and came to support that of the superrich. By the 1990s the free-market ideology became so deeply ingrained in the social fabric that Democrat Bill Clinton’s economic policies began to resemble those of the moderate wing of the Republican Party.

So, the Regan windfall created feedback effects from the increase in disposable income to the accumulation of political power and further domination of the public’s worldview. This vicious circle of wealth and power accumulation was the most pernicious aspect of Reaganomics: not only was it unfair and

<sup>8</sup> They also invested heavily in academia. See Ravitch (2017).

<sup>9</sup> For the damage done by the war on government, see Faux (2012) and Hacker and Pierson (2016).

deceptive, but most importantly, they tipped the scales of power permanently in favor of the superrich thereby undermining the basic preconditions of a democratic political system, namely the dispersion of power. So, plutocracy emerged slowly and incrementally (cf. Levitsky and Ziblatt 2018; Johnston 2018).

Another Nobel-Prize winning economist, Paul Krugman, still refers to Reagan's policies as voodoo economics. The supposed incentives failed to materialize. GDP did not grow exceptionally: at 2.2% per capita per annum average in the 1980s, it was just equal to that of the 1970s. Although the economy did overcome the recession of 1982, there were not many positive developments. In contrast, there were numerous negative ones: under his watch manufacturing employment began to decline, deregulation of the financial sector began, wages of the less educated began to fall, the share of labor income in GDP fell, a negative balance of payments became endemic, the Gini coefficient began to rise, the share of the top decile of the income distribution rose, the middle classes' share of income fell (and that includes even the upper-middle class), and at the end of his term underemployment was still at 9.3%. This is a long litany of adverse developments that were going to pose problems in the decades ahead. Another crucial legacy of the Reagan–Bush Sr. presidencies is that the national debt doubled relative to GDP from 30% to 60%. That, in turn, set in motion a process through which America became addicted to deficit spending with no end in sight.

Another aspect of the hallowing-out of the middle class was Reagan's vicious suppression of the strike of the Professional Air Traffic Controllers Organization. The union ceased to exist, and 11,000 employees were fired, signaling the end of the influence of big labor.<sup>10</sup> Intimidated, the number of strikes involving at least 1,000 workers declined thereafter from 235 in 1979 to just 17 by 1999. Admittedly union membership fell from its peak in the 1950s but had stabilized by 1973. Between 1973 and 1980 the share of the labor force in unions averaged 26.0% but fell precipitously under Reagan by fully 1/3<sup>rd</sup>, reaching 17%, by the end of his second term (Bureau of Labor Statistics 2017). So union power became a thing of the past (Mishel 2012).

Big labor had been the backbone of the middle class. They ensured that a share of the profits went also to workers and not only to executives and shareholders. United, workers had some bargaining power, divided they had none. Without that countervailing power those workers who had no special skills were left to fend for themselves as indicated by the falling wages of those without a high-school diploma. The results were devastating to the middle class.

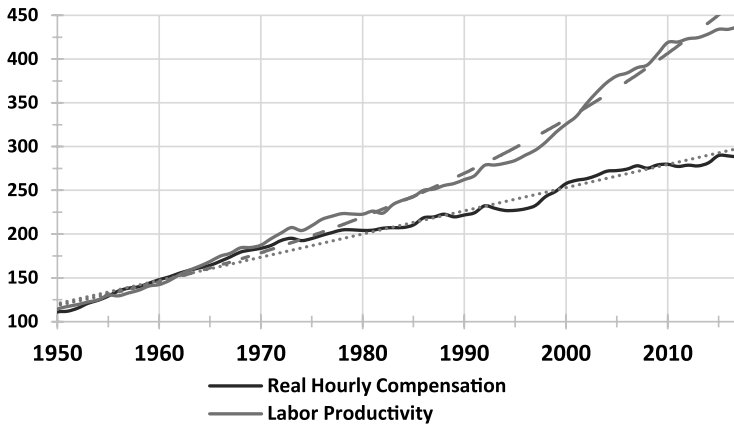
The early 1980s was the turning point. Until Reagan's presidency the difference between productivity growth and wage growth was negligible and under

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<sup>10</sup> "The PATCO strike signalled a profound decline in organized labor's power in the late twentieth-century United States" (McCartin 2007, 1126).



Jimmy Carter the gap remained constant at 18 percentage points (Figure 1). However, under Reagan the gap resumed its upward climb. Workers lost out and productivity grew 2.3 times as fast as wages. The difference accrued to profits which grew enormously. Thereafter, the gap widened continuously, although Democratic administrations tried to slow the rate at which the gap was increasing (Figure 2). By Bush Jr.'s presidency, the gap was increasing 6 percentage points per year. In 2017 the gap had reached 150 percentage points. That is to say, compensation increased by 39% since 1982 but productivity had increased by 95%, i.e., 2.4 times as much – and the compensation figures included the million-dollar salaries of CEOs. Without the countervailing power of unions, workers were at a distinct disadvantage.



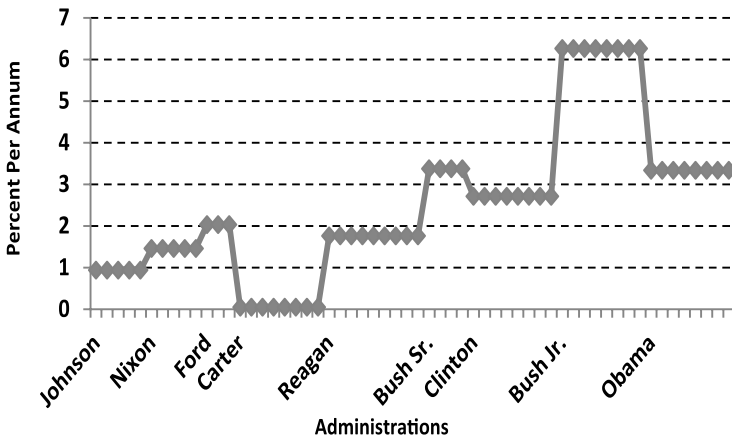
Source: Fleck, Glaser, and Sprague (2011). Data for 2012-2016 was kindly provided by Shawn Sprague of the Bureau of Labor Statistics.

Figure 1: The Productivity-Compensation Gap

### 5. The Next way Station: Bill Clinton and the Tsunami of Hyperglobalization

While George Bush Sr. initiated the North Atlantic Free Trade Association (NAFTA), Bill Clinton signed it into law in 1994: it will “promote more growth, more equality, ... and create 200,000 jobs in this country by 1995 alone” (Clinton 1993). He failed to mention how many jobs would be destroyed by imports – one estimate put it at 880,000 by 2002. His economic team was led by Bob Rubin, CEO of investment mega-bank Goldman Sachs. Globalization was said to be good for America, but no one *ever* said that it would be good for everyone in America.





Source: See Figure 1.

Figure 2: Increases in the Productivity-Wage Gap

Then, in 2000 China entered the World Trade Organization giving it easy access to the U.S. market. Hyperglobalization was in full swing (cf. Acemoglu et al. 2016; Pierce and Schott 2016a). The manufacturing sector was devastated and the middle class with it as jobs were exported. Before Reagan we imported about as much as we exported. Thereafter, the accumulated deficit reached \$15 trillion and is growing at a rate of half a trillion per annum. Millions of workers were displaced by the influx of imports and benign neglect was the fallback position of the establishment. In 2017, manufacturing employs merely 8.5% of the labor force. Hillary Clinton’s ‘deplorables’ were swelling in number and the Democratic Party turned its back on them as her husband had embraced the Republican ideology of free trade without helping those who were hurt (cf. Frank 2016).

And those who were hurt had nowhere to turn. They dropped out of the labor force by the millions and collected disability payments. “Roughly 40 percent of the aggregate increase in non-employment during 2000–2011 can be attributed to manufacturing decline” (Charles, Hurst, and Notowidigdo 2018). Economists know full well that free trade has winners and losers. Yet, they sang the praises of free trade in unison without emphasizing the fate of the losers as well. Joseph Stiglitz and Dani Rodrik were two notable exceptions.<sup>11</sup> Rodrik warned that “in the absence of a concerted government response, too much globalization would deepen societal cleavages, exacerbate distributional problems, [and]

<sup>11</sup> See, for example, Rodrik (2017). Autor et al. (2017a) note that “[a]dverse economic conditions ... [lead to] nativist or extreme politicians.”

undermine domestic social bargains” (1997). However, his warnings were neglected.

In retrospect Rodrik blames his economist colleagues:

It has long been an unspoken rule of public engagement for economists that they should champion trade and not dwell too much on the fine print ... The standard models of trade ... typically yield sharp distributional effects: income losses by certain groups are the flip side of the ‘gains from trade.’ And economists have long known that ... poorly functioning labor markets, credit market imperfections, – can interfere with reaping those gains ... Nonetheless, economists can be counted on to parrot the wonders of comparative advantage and free trade whenever trade agreements come up. They have consistently minimized distributional concerns, even though it is now clear that the distributional impact of NAFTA or China’s entry into the World Trade Organization were significant for the most directly affected communities in the United States. They have overstated the magnitude of gains from trade deals, though such gains have been relatively small since at least the 1990s (2016).

So the deep penetration of the U.S. market by Chinese products had a major impact on political developments. A recent analysis found that, „Michigan, Wisconsin, Pennsylvania, and North Carolina would have elected the Democrat instead of the Republican candidate if, *ceteris paribus*, the growth in Chinese import penetration had been 50 percent lower than the actual growth during the period of analysis. The Democrat candidate would also have obtained a majority in the electoral college in this counterfactual scenario” (Autor et al. 2017b).<sup>12</sup>

The Reagan-Bush deregulation agenda was also coopted by Bill Clinton. And when his appointment to the Commodity Futures Trading Commission, Brooksley Born, tried heroically to regulate derivatives he failed to lift a finger to come to her aid. Instead, Clinton signed the law that forbade the Commission from regulating derivatives. Period. And we know where that led.

## 6. On the Road to Trump with Bush Jr.

Bush Jr. continued Reaganomics by lowering taxes of the top 1%. The 2003 tax cut was very regressive as most of the windfall went to millionaires. When the meltdown came in 2008 his administration lavished favors and billions on the big banks, its CEOs, and shareholders without any strings attached. There was nothing left over for Everyman on Main Street. Again, it had to fend for itself. Stiglitz (2009) called this socialism for the rich, capitalism for the poor.

To be sure, technological change continued to play a role in the background throughout the three decades covered by this essay. It added to the frustration

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<sup>12</sup> See also Autor, Dorn, and Hanson (2016) and Pierce and Schott (2016b).

of the less educated workers. It increased the demand for skills and the employees released from manufacturing and manual labor were unable to find employment in the expanding information technology sector. For example, the number of employees in computer occupations rose from 450,000 in 1970 to 4.6 million in 2014 but 22% of them had a master's degree or beyond (Beckhusen 2016). Laid off textile workers without a college education did not have a chance to find employment in the expanding IT sector. Consequently, the increased demand was met by importing foreign workers: a quarter of the 4.6 million employed in IT were born outside of the U.S. Hence, technological unemployment no doubt added to the anxiety of the same low-skilled segment of the workforce hurt by Reaganomics and hyperglobalization. Yet, the difference was that technological unemployment was gradual and it effected the labor force stealthily: it was an intangible force that could not be identified with the economic policy of any politician or political party the same way as the creation of NAFTA in 1994 or China's entry into the WTO in 2000 could. These were events on a certain date for which specific politicians were responsible. Consequently, Trump did not attack technological change as he did NAFTA or China.

## 7. Obama Gave the Final Touches

Obama came in the middle of the meltdown. On the campaign trail he had made impressive promises of change that appealed to the growing number of discontented but once in office he allied himself unabashedly with the establishment, essentially continuing the economic policies of his predecessor. Like Bush Jr., he continued to prop up the too-big-to-fail banks, saving them from bankruptcy (cf. Scheiber 2011). Moreover, few new faces appeared among his economic advisors. Timothy Geithner, a Bush Jr. appointee to the New York Federal Reserve and a crony of ex-Goldman-Sachs CEO (and Bill Clinton cabinet member) Robert Rubin, was his biggest and ultimately fatal mistake. This was inexplicable as Geithner did absolutely nothing to prevent the coming of the financial crisis, and consequently, also shares responsibility for it. Then the Obama administration made the Bush tax cuts permanent in 2010 and 2013 while the fate of the lower- and middle classes were ignored. To be sure, Jamie Dimon, CEO of JP Morgan Chase continued to collect his compensation of some \$17 million for 2009 at tax payers' largesse (Ellise 2010).

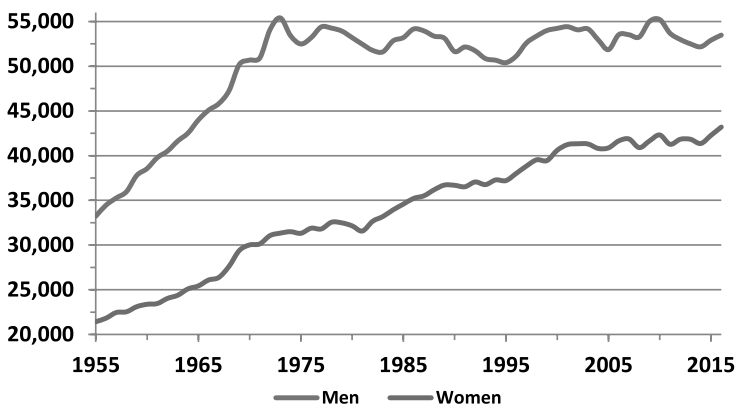
By bailing out Wall Street and neglecting the flesh-and blood people on Main Street he solidified the power of the financial sector and alienated a large number of people including the millions who were evicted. This was not the way Schumpeter's creative destruction was supposed to work. According to Stiglitz (2009), the economy mutated into an "*ersatz* capitalism." As Sheila Bair, chair of the Federal Deposit Insurance Corporation, noted during the crisis, "you don't need to protect the jobs and bonuses of dunderheads at places

like AIG and Citi who got their institutions into trouble” (2014). But Obama did defend them thereby betraying his mandate and alienating many of his supporters. Trump became his legacy.

### 8. Trump’s Election Was the Culmination of a 36-year Process of Despair Accumulation

Hillary’s “deplorables,” the uneducated, those who experienced the alienation of downward social and economic mobility, or the disappointment of wage stagnation for decades while others were living the lifestyle of the rich and famous, those who were clobbered by the tsunami of hyperglobalization, or by the hollowing out of the middle class, and those who were evicted from their homes while those the Lords of Finance were being pampered, all finally rebelled and upended the establishment whose benign neglect of their plight they could no longer bear. There were too many promises of change that were broken, and they believed that only a strongman could change the course of the ship of state. Hillary personified the incumbent establishment and would deliver the same status quo as her five predecessors, a not particularly inviting prospect.

The graphs below show vividly the outcome of the above policies: stagnating wages of men for longer than a generation and of women since 2000 (Figure 3). Especially the less educated men were hard hit, were prone to become drug addicts and to die of overdose or of suicide but also to become fervent supporters of Donald Trump – of course, only those who survived.



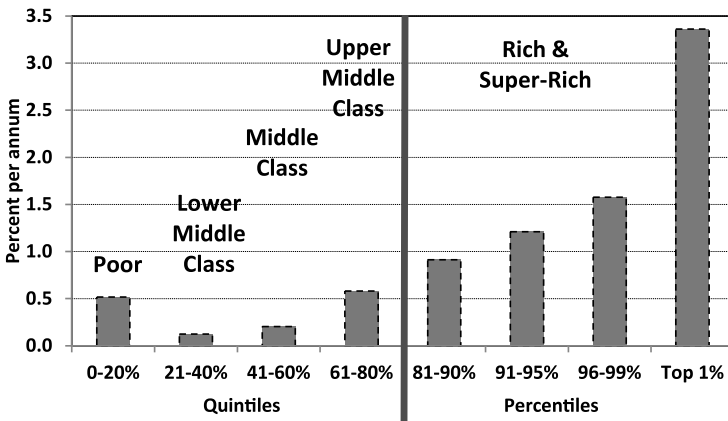
*Note:* wages are those employed year-around full time.

*Source:* U.S. Census Bureau (2018).

Figure 3: Median Income by Gender in 2016 Dollars

While mainstream economists declared that the economy was in great shape and has reached full employment, the typical worker experienced wage stagnation that hurt especially because the income of the rich skyrocketed (Komlos 2019).<sup>13</sup> This led to great discrepancies in income and to the “hollowing out of the middle class” (Figure 4). The incomes of three middle-class quintiles fell far behind those of the ultra-rich. Each bar on the left side of the graph represents the post-tax (inflation adjusted) income of 1/5<sup>th</sup> (quintile) of the 124 million U.S. households. The income includes the value of such transfers as food stamps and unemployment checks. Thus, each bar represents 24 million households (roughly 64 million people).

However, the top quintile is not shown on the left side of Figure 4. Instead, it is further subdivided into four groups, showing on the right side that the top 1% was the primary beneficiary of economic growth. Their income increased by \$600,000 (!) over the previous 32 years whereas the income of the lower-middle class increased by merely \$1,200 to reach \$31,000. That says it all.



Source: Komlos (2016).

Figure 4: Growth of Income, 1979–2011

The poorest 20% of households (the first bar) did continue to receive food stamps and other benefits so they were not allowed to perish, because that could have led to dangerous social instability but with an average annual income of \$18,000 they barely kept body and soul together. No wonder they were discontented. Obviously, the two middle-class groups between the 21<sup>st</sup> and 60<sup>th</sup> percentile of the population fared the worst: their income growth rate

<sup>13</sup> On the positive outlook, see for example Feldstein (2016).

is hardly distinguishable from zero. In fact, the middle class (41–60%; the third bar) gained but \$32 per annum in the 32 years under consideration.

The income distribution in the U.S., based on tax returns, also shows how unequally income is distributed. People in the bottom 60% of the income distribution earn just 20% of total (after tax) income generated in the economy, which is as much as the earnings of the top 1%. They also earn roughly 20% of total income. In other words, 1.2 million taxpayers earn as much as the bottom 60 million taxpayers. The U.S. has the most unequally distributed income in the developed world. No wonder that it has become so plutocratic.

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

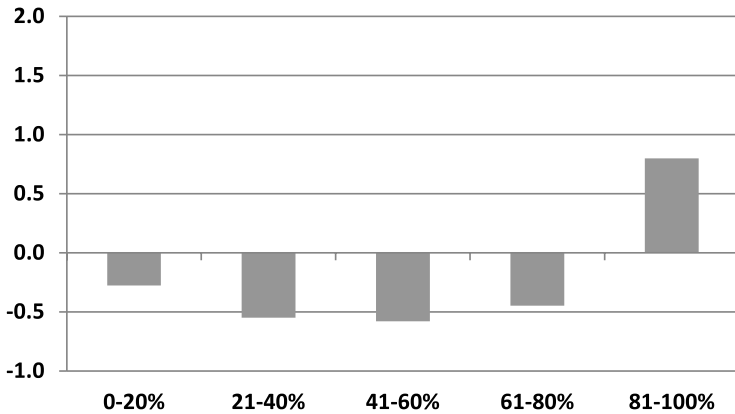
Psychologists have shown that our life satisfaction is reference dependent: relative deprivation matters a lot as we compare our welfare to that of others. Figure 5 assumes that people use the fifth quintile as their reference and compare their own income to that of the top group.<sup>14</sup> This graph provides the real clue to Trump’s success: the growth of welfare is negative for all groups except for the superrich. The rest of the society was left behind for more than a generation. Hence, Figure 5 is a more indicative of the immense frustration accumulated in the society on account of the inequality. As the Nobel-Prize-winning Princeton economist, Angus Deaton, said, “If we can only generate good lives for an elite that’s about a third of the population, then we have a real problem ... if we can’t fix this, it really is a crisis of capitalism ... it doesn’t seem to be working for the people who are not very well educated.”<sup>15</sup>

We have had a long string of attractive promises by five administrations from Reagan to Obama. Tax cuts, trickle-down economics, deregulation, globalization, and NAFTA were all portrayed as great strides forward. All were supposed to make us better off. Instead, they conferred most of the financial benefits on only one social strata: the ultra-rich but led to the “hollowing out” of the middle class. So, wealth and its concomitant, political power, became as concentrated as it was during the era of the Robber Barons at the turn of the 20<sup>th</sup> century.

No wonder that so many people switched allegiance and voted for a “narcissistic sexual harasser and a routine liar,” a strongman with a vitriolic personality who is deceiving his populist base more brazenly than any of his predecessors.

<sup>14</sup> For the 5th quintile they are their own reference. So the relative income does not play a role in their living standard.

<sup>15</sup> See the interview: Jason Belline (2018); the quote is at the 5.54 mark.



Note: top 20% is reference.

Source: See Figure 4.

Figure 5: Growth Rates in Welfare (%), 1979–2011

sors. They trusted a billionaire who brought other billionaires into the cabinet along with a handful of generals. Although Eisenhower’s military-industrial complex has morphed into the military-billionaire complex, it nonetheless signified that the plutocracy solidified its control over the political system (cf. Schlozman, Verba, and Brady 2012; Gilens and Page 2014; Formisano 2015). That is the culmination of political dysfunction that led to the triumph of Trumpism. It was the benign neglect of this social strata by five administrations that induced so many voters to play “Russian Roulette” thereby enabling Donald Trump to flip the three Rust-Belt states from Democratic to Republican thereby upending the establishment.

However, politicians did not admit that the Reagan tax cuts did not work and continued to cut taxes and create deficits. The 2003 tax cut was the most regressive in history as most of the benefits went to millionaires. The Obama administration then made the Bush tax cuts permanent in 2010 and 2013. Similarly, the Trump tax cut favors mostly those earning more than half a million dollars (cf. Van Dam 2017). It is an uncanny irony that Trump’s supporters will not benefit from his economic policies. The tax cuts are a great windfall for millionaires. His manipulating tariffs will not bring back jobs and has already cost the government \$12 billion in subsidies to farmers, and he even wants to take away the health insurance of low-income people (cf. Krugman 2018). Yet, the great problem of our time is that in this super-complex world it is far too challenging for the less educated to even recognize their own self-interest. Democracy can flourish only as long as people know what’s good for them. Once that connection is broken, the society is adrift without an anchor and the unimaginable can become reality. Thus, we are in a revolutionary socio-economic



and political realignment and as the columnist David Brooks asserted "... our nation is emotionally sick" (2018). There is no telling as to the twists and turns and the developments which will take place. This is eerily similar to other revolutionary times which tended to be unpredictable and usually ended very differently from the way they began.

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