

DISCUSSION PAPER

The Neo-Liberal Roots of 'Trumpism': American Economic Policy in the Post-Trump Era

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Introduction

It has been more than a month since the American elections. In January, President-Elect Joe Biden will replace the incumbent President Donald Trump. Many see this as America turning back to 'normalcy' after a tumultuous four years. According to this view, recent trends in American politics with increasingly radical rhetoric at home and unconventional foreign policies abroad have been caused by President Trump's erratic and personal politics. This paper argues the opposite. Given the long-term trends of the American economy, the Trump presidency is not the cause but a symptom of deep underlying maladies afflicting American politics. Income and wealth inequalities in the US have been rising since the neoliberal revolution of the 1980s. Unless President-elect Biden concentrates on undertaking radical economic reforms in the next four years, America will remain divided and radical politics on both ends of the political spectrum will continue to rise.

The Trump presidency has been eccentric on many fronts. In an attempt to reduce American current account deficit, Washington imposed higher tariffs on imports from not only China but even its allies in Europe and Canada. President Trump banned people from seven predominantly Muslim countries from entering the US and initiated his wall project across the Mexican border to curb immigration. Constant rhetorical attacks on American institutions, including Central Bank, Congress, mainstream media, politicians from different backgrounds, became a daily routine in Washington. Many were convinced that President Trump would lose 2020 elections in a landslide. However, it took a once-in-a-lifetime global natural disaster, Covid-19 Pandemic, to take Trump down. Even still, Trump got an unexpectedly high number of votes from Americans, including minorities.

A careful inspection of Trump's rhetoric and policies, especially when contextualised in the last 40 years of neoliberalism in America, reveals that Trump's election was no accident. The political environment of the last four years was not the creation of President Trump's charisma or personal politics but rather the outcome of forty years of high and increasing inequality, deteriorating job security and work conditions, stagnating minimum and median wages, and declining infrastructure across the American countryside. The American people are angry with the way things have been for the last forty years and are willing to use radical ways to express their discontent, especially since the 2008 global financial crisis. At the domestic level, ironically, Trump seems to be the continuation of Occupy Wall Street Protests and at the international level, Brexit, Yellow Vest movement, or rising far-right across Europe. What underlies all these movements is growing discontent with economic trends across developed economies, which have brought people with varying political views together.

The incoming Biden Presidency comes as a chance to revert all these trends. Over the next four years, President Biden has an opportunity to transform the American economy into a more inclusive and sustainable structure. Redistribution of income and wealth through progressive taxation and public spending on services will be critical to halting the growing inequality. Labour market conditions can also be improved to give more Americans the financial security they want while trade regulations can ensure that this does not deteriorate the competitiveness of American companies. Moreover, the government is the only force which can put an end to growing monopoly power, exemplified in companies such as Amazon, Google, Microsoft, and eBay.



(Tayfun Coşkun - Anadolu Agency)

The Charm of Populism in America

When Donald Trump, a real estate tycoon and a former reality TV personality, announced in January 2015 that he was seeking the Republican nomination for the presidency, it was taken by many as a publicity stunt. Two years later, Trump was inaugurated as the 45th president of the US. Trump's public persona has gradually transformed from an eccentric, even funny, popular business and media figure to a serious and deeply dividing political phenomenon. Given his past career, erratic and informal personal attitude, and unconventional policies, Trump's presidency represents a clear outlier in American political history. In a country where politics is all about calculated comments, fine-tuned rhetoric and mannerisms, Trump somehow managed to get away with insults, racist remarks, and threats casually thrown at whomever he wants (including dead politicians and national heroes) as well as the most radical, unthinkable policies at home and abroad without American institutions and established politics being able to stop him.

There seems to be a general tendency among political analysts in the US to see the Trump era as a historical accident. A more careful investigation tells another story. Elements of Trump's political positioning can be summarised around several points, all of which have, knowingly or not, hit a nerve in American politics. First, Trump's attack on the American elite was critical. What has been interpreted as an 'attack on American institutions' by analysts has been seen by Trump voters as taking on the established order. Since the first day of Presidential campaign and throughout his time in office, Trump blamed the American media for fake news, Congress for incompetence, the Central Bank for dampening economic growth, accusing politicians, including former President Obama, of treason (LeBlanc, 2020), and the list goes on. Critical coverage by the American media, political attacks by mainstream politicians, a long line of bureaucrats and even White House insiders only served to bolster Trump's message to his core supporters. Even before he was president, Trump's claim to have self-funded his presidential campaign was perceived by voters as a sign of his independence from and disdain for the American elite (Graham, 2016).

Second, from early on, Trump pledged to bring back manufacturing jobs to America. As discussed below, the US has lost millions of manufacturing jobs over the last several decades, especially in regions that voted for Trump. President Trump promised that his government would use several carrot-and-stick policies to force American companies operating abroad, either in Mexico or China, to move back to the United States. Whether this promise was genuine or feasible is another matter, but Americans' longing for those 'good old days' when millions of working-class families in American mid-west could earn a living wage from American manufacturing companies on secure lifetime contracts seems to have provided the Trump campaign with the deep popular wave which he needed to get elected. Trump's aggressive trade policy stance against China is also part of this story because most of those manufacturing jobs moved to China.

Trump's war against immigration can also be understood along similar lines. Many interpreted Trump's so-called 'Muslim ban' as well as his initiative to build a "huge" wall along the Mexican border as an appeal to rising xenophobia and racism in the US. Maybe it was to some extent, however, the perception that immigrants are taking American jobs at the expense of middle-class Americans could have been even more critical for gaining the support of Americans for these policies. The idea of blaming others for one's economic grievance is always attractive, and Trump seems to have capitalised on those feelings, which makes him a populist in the truest sense of the term. It should be mentioned that many millions of Britons voted for Brexit based on similar motivations. Indeed, there is nothing peculiar to the US in terms of the effect of globalisation on the middle class in rich countries and the backlash against it (Başbay, 2020).

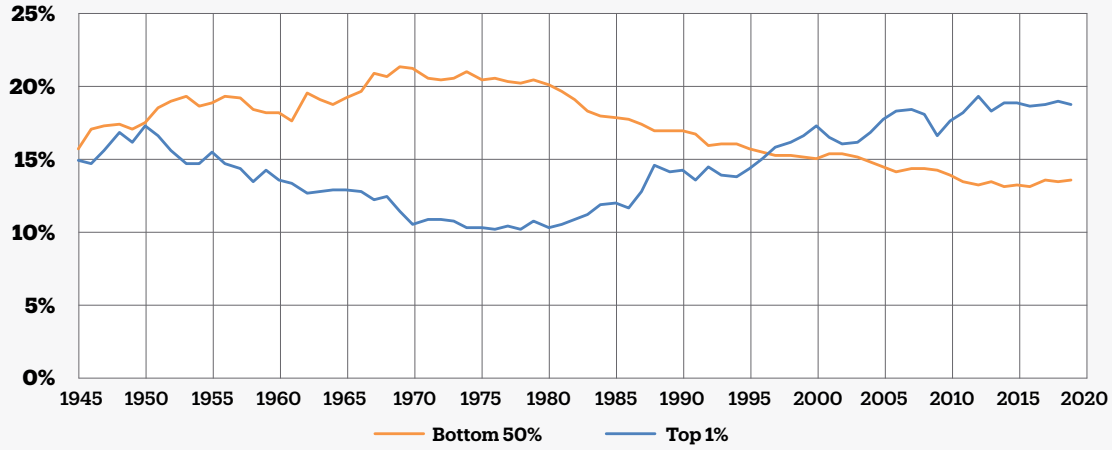
Finally, Trump promised a big public infrastructure investment programme. As President-elect after the 2016 elections, he promised to spend $1.5 trillion over the next 10 years to "fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals" (PBS News, 2016). US infrastructure is crumbling due to years of austerity policies, which affects the poor more than proportionally because the rich are capable of circumventing problems with the public infrastructure through private means. After all, the rich do not tend to use public schools or hospitals. But perhaps a big government stimulus to the economy, which would directly or indirectly provide employment for many millions of people, was even more important than the provision of these services for the voters. Not only infrastructure spending but Trump's policies in general, including his trade policies or deregulation of the American energy sector, are all perceived by American voters as proof that creating jobs is a major priority for Trump.

If one connects all the dots in President Trump's rhetoric, there appears to be a pattern. Arguably, Trump was popular not because he was a racist or boosted nationalist feelings but because he promised Americans an overhaul of the existing system. Americans decided to invest in Trump's promise arguably not because but despite some of his more questionable ideological positions. It should also be noted that Trump is not the only unlikely popular politician of today's America. Radical politics, which Amer-

ica is not historically known for, has become increasingly more mainstream in recent years. To see this trend vividly, one should simply look at the other end of the political spectrum. As ironic as it is, political figures including Bernie Sanders, Elizabeth Warren, Alexandria Ocasio-Cortez, or Ilhan Omar are arguably part of the same historical trend. As already mentioned, the Occupy Wall Street Movement was perhaps the first sign of rising radical politics in the US.

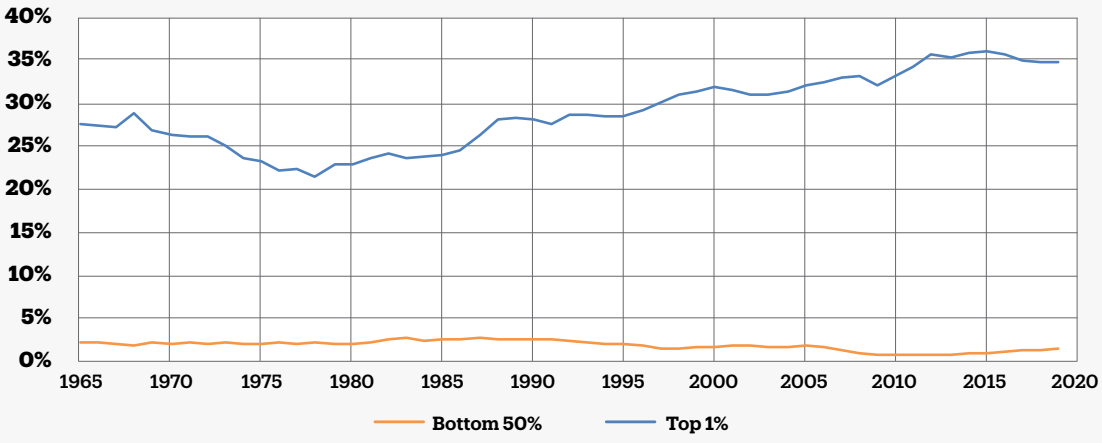
The rise of radical politics on both extremes proves the point made above. To repeat, Americans voted for Trump or democratic radicals not so much because of their respective ideologies than the economic implications of their policy position. Indeed, other popular Presidential contenders such as Bernie Sanders and Elizabeth Warren have given the same message as Trump on many issues, including taking on the elite, boosting manufacturing jobs at home, building better infrastructure, and overall increasing the economic security of the average American. In fact, many who voted for Sanders in election primaries in 2016 ended up voting for Trump despite the obvious gap between the two in terms of their views on so many other issues (Kurtzleben, 2017). The surprising transitivity between Trump voters and democratic radicals becomes less surprising when one looks at it from this perspective (Pilkington & Chalabi, 2016).

Figure 1: Income Inequality in the US, 1945-2019



Source: World Inequality Database

Figure 2: Wealth Inequality, 1965-2019



Source: World Inequality Database



US President Donald Trump raises his fist during a rally to address his supporters at Miami-Opa Locka Executive Airport in Miami, Florida, United States on November 2, 2020. (Eva Marie Uzcategui Trinkl - Anadolu Agency)

The Making of Trump

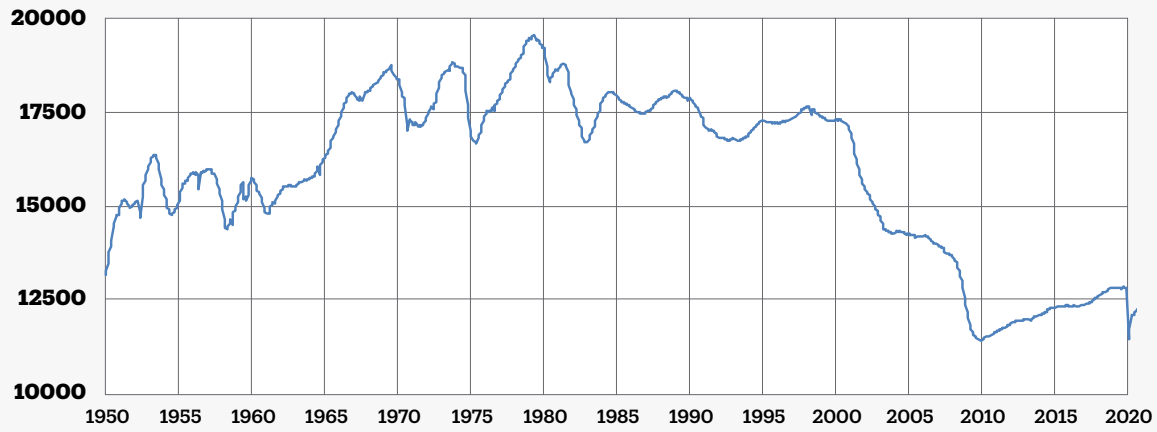
The above discussion does not answer the question of why radical politics became so popular in America now. To answer this question, one should look further back into American history. In the early 1980s, the US economic policy went through a major transformation. With the election of President Reagan in 1979, formerly interventionist and regulatory government policies were dropped, and the US transitioned to a radically more pro-market policy stance, which is most generally referred to as neoliberalism. President Reagan believed that this was necessary for moving the American economy out of the stagflationary swamp the oil crisis created in the 1970s. As part of the reforms, the government eliminated many interventions in the distribution of income, labour market conditions, international trade and finance, in order to enhance the entrepreneurial spirit of the American economy. Consequently, both income and wealth inequalities have been steadily rising in the US. The current political environment in the US is largely the doing of this neoliberal trend.

Neoliberal policy reform in the US can be explained around several main points. First, marginal tax rates on the rich were reduced radically. Beginning with the 1981 Economic Recovery Tax Act, President Reagan substantially reduced the effective tax rate on top income earners (and corporations owned by them) over the course of his 8-year presidency. At the same time, payroll taxes, imposed on employee wages, and taxes on social insurance were steadily raised. By the end of 1980s, a large part of the tax burden had been transferred from the richest Americans to middle- and working-class citizens. In particular, the tax rate on the top 1% of the income distribution was reduced from 37% in 1979 to 28.8% in 1990 while the tax rate on the bottom 10% increased from 8% to 8.5% (Bureau of Economic Analysis, 2007). Neoliberals defended these regressive tax reforms with the now infamous trickle-down theory; namely, as income accruing to the rich was rising, the rich were supposed to invest more, thereby generating employment and income for the poor.

The US also not only gradually deregulated trade relations but also championed free-trade agreements across the world. Import taxes have been reduced and free trade agreements were signed with many allies. In particular, the North American Free Trade Agreement (NAFTA) has been the most controversial of these. With NAFTA, The US was integrating its economy with its neighbours Mexico and Canada. As wages in Mexico were only a fraction of those in the US, after Clinton administration won congressional approval in 1993, millions of American manufacturing workers lost their jobs to their Mexican counterparts. In 1994, the American zeal for free trade reached another high with the singing of the famous Uruguay Round agreement, which led to the creation of World Trade Organisation (WTO) (Destler, 1994).

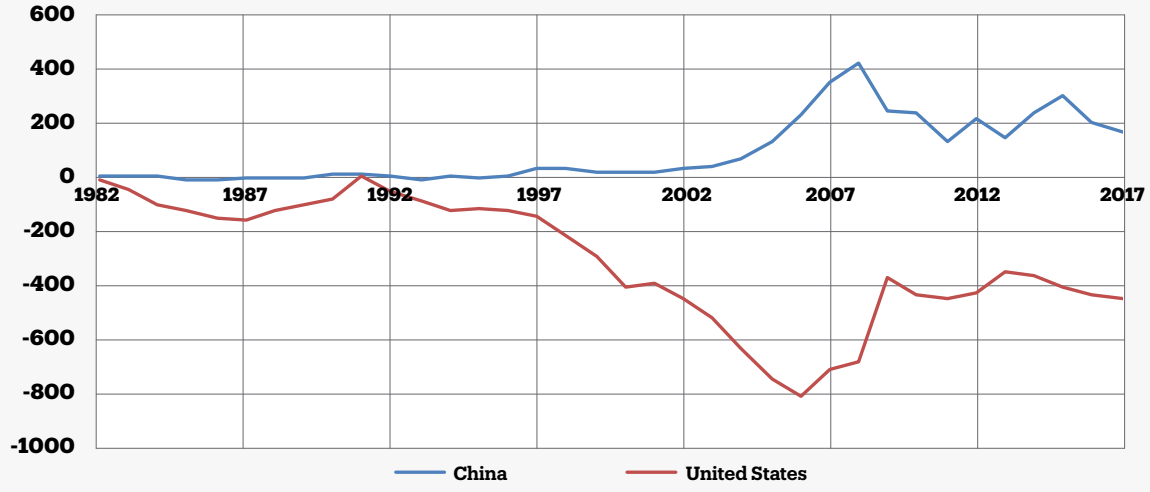
As trade barriers were lowered, American manufacturing industries quickly moved to wherever labour was cheaper, mainly China. Relocation of manufacturing cost American middle-class millions of manufacturing employment especially in American mid-west, the historical heartland on American manufacturing (see figure 3). Simultaneously, as cheap Chinese products flooded the American market, domestic producers were washed away. Of course, while manufacturing moved away, the US remained the bedrock of high value-added services, including software, design, and finance. However, there are only so many Apple or Google jobs and only a small segment of the society have the education or qualifications to be employed in these industries. Consequently, the income gap between the lucky minority of educated engineers, designers, financiers, lawyers etc. and the American middle-class gradually widened, skyrocketing income inequality in the US.

Figure 3: Manufacturing Employment in the US *(thousands), 1950-2020 2019*



Source: U.S. Bureau of Labor Statistics, 2020

Figure 4: Current Account Balance in the US and China, *1982-2017*



Source: World Bank

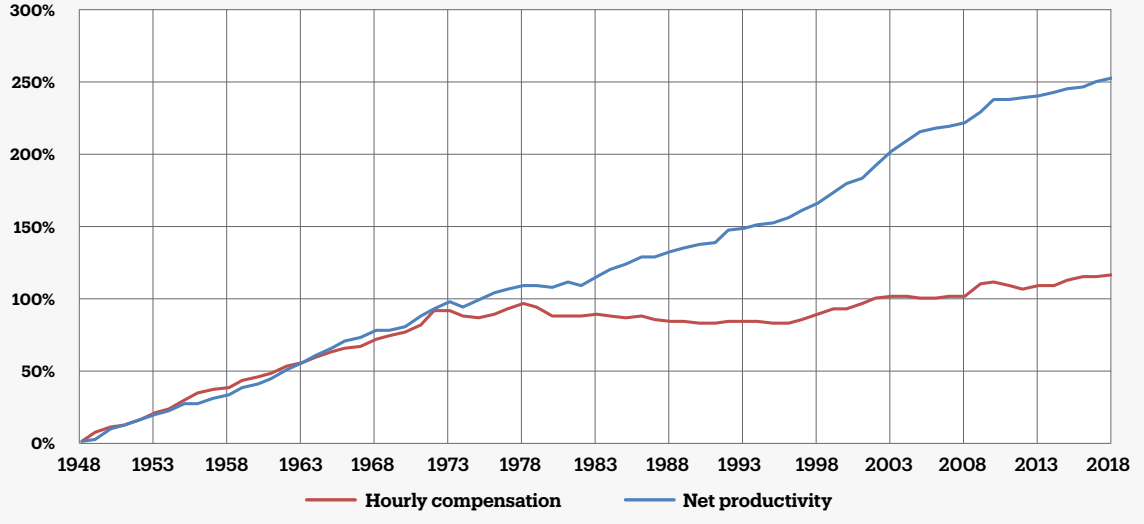
Beginning from the 1980s, the American labour market was radically transformed. In 2019, only 10.3% of American workers were members of a union, compared to 20.1% in 1983 (Bureau of Labour Statistics, 2020). As the unionisation rate declined, the gap between an average worker's productivity and wage dramatically widened. Bivens et al. (2014) report that since 1979, productivity has grown by 64.9% whereas the average wage of non-supervisory workers (80% of all) increased by only 8.2%. This explains the marked decline in labour's share in total national income vis-à-vis capital's share as well as growing income inequality between top earners and the rest. To put it simply, because workers lost their bargaining power, capitalists and the managerial class have been soaking a much larger share of the national output while workers share has been steadily declining due to stagnating wages.

The declining unionisation rate is partly caused by the emigration of manufacturing, a massively unionised sector compared to others, to East Asia. When we talk about an average American worker, we do not think about an automobile factory in Detroit anymore but a Walmart store or a Starbucks branch. But this is only part of the problem. Simultaneously, the American labour market has gradually been deregulated which allowed part-time, temporary, and non-standard jobs to replace full-time, long-term, and secure ones. As part of a general trend, which has affected all developed countries, American employees are now working in precarious conditions. Low unemployment rates give the illusion of favourable labour market conditions. However, many workers have had to take on part-time jobs and there has been an increased dependence on the so-called 'gig economy', both of which have resulted in reduced pay and diminished job security. Moreover, they can be more easily fired by employers in recessions without any real severance payment. The current conditions of the labour market in the US, and many other developed economies, stand in clear contrast to the conditions of the 1950s and 60s when an average worker would work for the same company for decades under a secure contract.

On the top of 30 years of growing inequality, deteriorating working conditions and the disappearance of traditional American manufacturing industry, in 2008 the US economy experienced one of the deepest financial crises in history. Millions of Americans lost their jobs, livelihoods, and homes while their government spent hundreds of billions of dollars on corporate bailouts. It was in this context that the Occupy Wall Street Movement emerged in a country that is not known for an anti-capitalist political tradition. Not to mention, in the 10 years following the global crisis, Washington failed to revive growth rates back to their pre-crisis levels despite a massive monetary expansion and below-zero interest rates, unheard of before the crisis. It is tenable to say that even prior to the Covid-19 crisis, the US was looking at a potential revolution in policymaking in order to escape anaemic growth rates in the aftermath of the global financial crisis (Başbay, 2019)

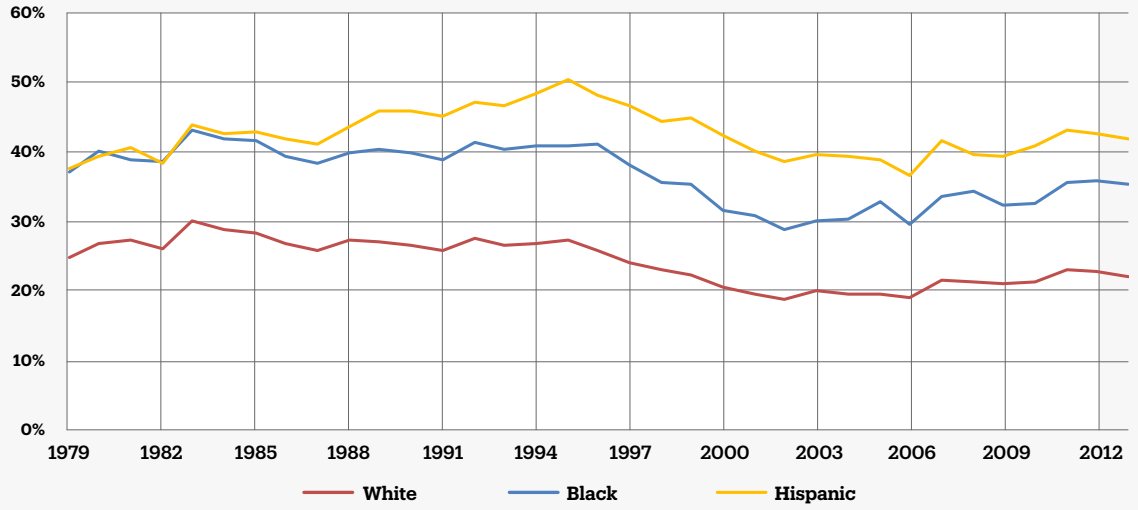
With Covid-19, the American economy seems to have arrived at yet another inflexion point. The pandemic has wreaked havoc across the American economy, especially at the bottom of the income and wealth distribution. Millions of Americans, especially those who are in service sectors, are now unemployed. Presumably, this will increase the income gap further between white-collar managerial employees, who remain in their jobs, and other blue-collar workers, who have been laid off due to Covid-19 crisis and now depend on unemployment assistance. Moreover, since the beginning of the pandemic, the wealthiest Americans, including owners of major companies such as Amazon, Apple, Tesla etc., have multiplied their wealth via rising stock prices, while the rest of the economy has collapsed, revealing the shocking gap between the financial sector and the real economy.

Figure 5: **The Gap between Productivity and Wages,** *1948-2018*



Source: Economic Policy Institute, 2020

Figure 6: **Share of workers earning less than poverty-level wages, by race and ethnicity,** *1979–2013*



Source: Bivens et al. (2013)

After Trump, what comes next?

It may be tempting to conclude that the populist wave has passed with the defeat of President Trump (Arnold, 2020). However, given the economic trends discussed above, this is far from the truth. It should be noted that 74 million Americans (46.9%), including a considerable share of minorities and women, voted for Trump, a politician who has demonstrated racist and misogynist tendencies. Not to mention, most Trump voters believe that the election was rigged. Trump supporters are not simply going to disappear in the next four years and there is every reason to believe that Trump will continue to be influential in American politics and maybe even run again in 2024. Even if Trump quits politics forever, unless the social and economic dynamics which paved the way for Trump's rise are addressed, there will be other politicians who will capitalise on the discontent of the American people with the economic system.



(Morry Gash/EPA - Anadolu Agency)

The first task for the incoming administration is of course recovery from Covid-19. A part of this is health policy, including increased testing and distribution of vaccines, while also focusing on re-opening the economy. However, in terms of economic policy, the government needs to take radical steps. Households and small businesses desperately need to be rescued until it is too late. This should include supporting businesses that are struggling as well as assisting those who lost their jobs in the course of the pandemic. If the government does not act quickly, there will likely be a downward spiral of a rising number of

bankruptcies, soaring unemployment, and a collapse of aggregate demand, which in turn would lead to even more bankruptcies and so on. Not to mention, public health services need to be financially supported in order to equip them better to test, treat, and vaccinate the American population. The Senate and White House have been negotiating a rescue package for more than 6 months (Laris, 2020). It should be remembered that in 2007 when it was the bankers on Wall Street who needed to be rescued, it took literally hours for Washington to pass a rescue package.

Even if a spending package is passed, it will take much more than short-term rescue plans to normalise the American economy. As discussed above, the problems of the American economy were not caused by the pandemic but have been in making for the last forty years. First, progressive taxation, which democratic radicals have already been pushing for, should be high on the agenda. Both Elizabeth Warren and Bernie Sanders, other popular Presidential contenders, promised a wealth tax during their campaign. Their success in winning votes in the Democratic primaries (which collectively surpasses Biden actually) shows that there is popular support for such radical reform. Economists Saez and Zucman (2019) even prepared a report, originally written for the Warren campaign, to investigate the feasibility and implications of progressive tax reform. In particular, Saez and Zucman propose a 2% wealth tax for wealth over $50 million and 3% over $1 billion (the so-called Warren tax). One way or another, the US needs to reform its tax structure to reverse the regressive reforms realised in recent decades.

Second, the Biden administration may also want to transform the other side of fiscal policy, namely government spending. To revive the economy, the US will need a strong long-term Keynesian-type stimulus programme. According to Nobel Laurette Paul Krugman (2020), such an approach is necessary to put the American economy back on its feet. Specifically, Krugman argues for increasing government spending permanently, in excess of government revenue by 2% of the GDP, which would boost output and generate employment. Such fiscal stimulus would increase public debt to unprecedented levels (200% of the GDP), but according to Krugman, it is worth it, because the private sector is incapable of reviving the economy on its own. Surely, the government should not spend for spending per se (which, according to Krugman, can still be a good idea because it would spur private investment) but rather use the current situation as a transformative opportunity. Public spending on infrastructure and R&D can increase the productivity of the US economy while spending on better public provision of schooling, healthcare, childcare and other services can increase the inclusiveness of the US economy.

Furthermore, some believe that expansionary spending can transform the American economy in an even deeper way. The government could help realise a green revolution by investing in renewable technologies and transforming American production towards more sustainable technologies (Badré, 2020). Biden has already pledged to invest in renewables and transform the American economy away from fossil fuels. According to Hepburn et al. (2020), investments in clean physical infrastructure (wind and solar energy), building efficiency retrofits, investment in education and training, natural capital investment, and R&D on clean energy not only help mitigate climate change but also create jobs, so these categories of spending represent a win-win.

Third, it is likely that the Biden administration will continue to push China on trade. Protective tariffs imposed by President Trump will most probably be eliminated for imports coming from allies, including EU members and Canada, however, the Biden administration may want to maintain some of the Trump tariffs imposed on China. Biden knows that in order to get re-elected in 2024, he needs to reach out to the American middle class, and as part of this attempt, keeping trade barriers high can be preferable so as to benefit domestic producers and their workers (Kupchan, 2020). Needless to say, keeping American companies away from China and Chinese companies away from the US may be preferable also from a geostrategic point of view. In any case, we will likely see an America which puts much more emphasis on domestic production and less on globalisation and open trade.

Forth, the Biden administration can reverse much of the labour market deregulation, which took place after the 1980s. This may include increasing the federal minimum wage (which forces states to increase their respective minimum wage levels above this level), improving workers' bargaining rights, unionisation rates, and job protection. The common opposition against higher wages and better labour rights is that this would reduce investments by making them less profitable, and in turn hurting everyone, including workers, through higher unemployment rates. However, given the current conditions of the American economy, this

is debatable. It is more likely that lower wages dampen aggregate demand, thereby reducing profits and suppressing production (Mian et al., 2020). In other words, higher wages can serve to boost private sector investment by creating more demand. This is indeed what a post-Keynesian approach suggests, which is more tenable given the trends of rising income and wealth inequalities on the one hand, and declining investment and growth rates on the other (Stansbury & Summers, 2020).

Last but not least, the splitting of monopolies in the US should be sought. It is known that mega-corporations such as Amazon, eBay, Google, Microsoft, Facebook etc. are hurting the competitiveness and inclusiveness of the American economy by swallowing start-ups and successful small companies before they have a chance to change the industry for the better. Because newcomers do not have the appropriate space to innovate and compete, wheels of creative destruction slow, thereby reducing the dynamism of the American economy. Capital concentration in a few already established companies reduces both growth and equality in the American economy (Acemoglu, 2019). In this regard, beginning from the 1890 Sherman Act, the US has a long history of dealing with monopolies, however, current antitrust laws seem largely ineffective in preventing market concentration.

Table 1: Hourly Wages by Percentile, 1979-2013

	1979	1989	1995	2000	2007	2013
10 (Poorest)	$8.84	$7.6	$7.7	$8.5	$8.8	$8.4
20	$10.08	$9.4	$9.4	$10.5	$10.6	$10.0
30	$11.83	$11.3	$11.2	$12.3	$12.4	$11.9
40	$13.92	$13.5	$13.2	$14.2	$14.5	$14.2
50	$15.75	$15.7	$15.4	$16.6	$17.0	$16.7
60	$18.26	$18.3	$18.2	$19.6	$20.2	$19.8
70	$21.58	$21.8	$21.7	$23.2	$23.9	$23.9
80	$25.15	$26.0	$26.3	$28.2	$29.5	$29.8
90	$30.76	$32.9	$33.9	$36.9	$39.6	$40.4
95 (Richest)	$37.56	$40.4	$42.5	$47.0	$51.1	$52.8

Source: Bivens et al. (2013)



(Tayfun Coşkun - Anadolu Agency)

Conclusion

Although many commentators have chosen to see the Donald Trump era as an anomaly, the Trump phenomenon was arguably the making of years of neglect of American middle- and working-class grievances with the neoliberal economic model. As mainstream politicians failed to act in response to increasing inequality, stagnating working-class wages, less job security, deteriorating government protection and public services, Donald Trump was able to capitalise on people's discontent with the established order and channel their fear and anger to fuel his political career. Ironically, the rise of radical politics on the other end of the political spectrum, represented by politicians such as Bernie Sanders or Elizabeth Warren, can also be explained with the same socio-economic dynamics. It should be noted that despite their radically opposing views on many critical issues, they hit what ultimately boils down to the same nerve in American politics.

What underlines populist radical rhetoric, including Trump's, in today's America, is a deeply rooted dissatisfaction of the established economic order. Radicals on the left and right promise Americans financial security, which requires closing the gap between the richest and the poorest, enable American workers to earn a living wage on secure contracts without wondering if they will still be employed next month, and better provision of public goods and services, especially education and healthcare. In all these accounts, the 2008 global financial crisis was the first wake-up call. After a decade of failed attempts to turn back to the pre-crisis economy, analysts both in academia and policy circles were finally considering taking a different perspective. Now, with Covid-19, the need for policy reform has become even clearer. As Nobel laureate Joseph Stiglitz (2020) put it, "it is clear that neoliberalism has led to lower growth, higher inequality, and all of the social and political consequences that we have seen in recent years. Now, the pandemic has put the final nail in neoliberalism's coffin."

In order to reverse the economic, political and social malaise caused by 40 years of neoliberalism, the US economy requires substantial reforms in areas ranging from taxation, public spending, and trade relations, to labour market regulations, and market concentration. If Biden makes the mistake of trying to turn back to pre-Trump 'normalcy' rather than paving the way for a different economic model, Trumpism, broadly construed, will live on with some very dangerous consequences. What American politics require is not a recovery in the strict sense of the word, but radical reform which will transform the American economy towards a more inclusive, egalitarian, and sustainable structure. History teaches us that unless the government acts quickly and radically to respond to the crisis, there will be a political reckoning, which may be uglier than even the last four years of American political life.

Arguably, the biggest obstacle for policy reform will be the relentlessness of corporate America and its enormous lobbying power. It is indeed true that American politicians are surrounded by American corporations and often manipulated by them and their financial power. However, as American history shows, American politics is not devoid of reformist, even revolutionary, powers when the conditions are ripe. In this regard, Covid-19 and the extraordinary environment created by the pandemic, present an opportunity. Facing a major national threat, Biden could mobilise more support both from certain segments of the political elite and the populous to circumvent corporate lobbying. After all, all the previous policy reform in American politics also came after crises, including the Great Depression, World War II, or the Oil Crisis.

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