

The Trump Phenomenon

Mushtaq Khan & Danish Hyder, September 28, 2016

This article does not seek to predict the outcome of the US presidential elections; it only tries to understand how the political landscape in the US has allowed for the unprecedented media circus over the past year. With candidates inciting violence; insulting voters; threatening trade wars; and questioning the mental and physical health of other candidates, the 2016 election cycle is unique and somewhat distressing.

The political circus despite a promising outlook

Obama's impassioned plea that this election be viewed as an assessment of his legacy, is a remarkably strong statement for a sitting US President. His explicit need to ensure that Hillary Clinton wins, suggests that the reputation of the political *establishment* is at stake.

What is surprising, is that the US is not experiencing any significant upheaval. The US economy is performing far better than other OECD countries; the US is not actively engaged in an overseas war (with boots on the ground); and its dependency on imported oil has been eliminated for good.

Clearly these positives have been overwhelmed by other issues, many of which have been festering outside the political radar. While Obama had tangible challenges to overcome in 2009, the current candidates have not inherited similarly weighty problems, and perhaps because of this, there is more soul-searching by the American voter.

As revealed by the shock Brexit decision in June 2016, it appears that the political class on both sides of the Atlantic, has lost the pulse of their people. The imbalanced economic recovery since 2009 and the downside of globalization (the loss of blue-collar jobs), have impacted the lower and middle class much more than most politicians anticipated. Furthermore, the Syrian refugee crisis and a spate of ISIS attacks in Western Europe, have stoked fear and xenophobia within the US.

Changing Political Landscape in the US

In our view, three factors have created the current political climate in the post-Reagan period: (1) the damage done to American workers in certain industries by unfettered global trade; (2) the growing spread of 24-hour cable news channels; and (3) the ideological shift towards the center by both the Democrat and Republican parties.

Globalization expands the economic pie, but it does not ensure that everybody gets a fair slice. Free trade has created immense wealth, but it has also hurt certain groups of Americans. The loss of blue-collar jobs; the economic slowdown in the Rust-Belt; and the marginalization of the less educated, can be traced to free trade and specialization.

One could argue that the spread of 24-hour cable TV has been instrumental in shaping and commoditizing political personalities, parties and agendas. Airing pro-globalization stories would have been encouraged by multinational corporations, which are the primary source of revenue for these news networks. The downside of globalization does not get sufficient airtime. In addition to economic marginalization, many people feel left out of the mainstream cultural discourse.

Furthermore, political thinking in the US since the 1990s, has become less ideological and driven more by moneyed interests with some social values sprinkled in to motivate people to get involved and vote. So while Republicans focus on lower taxes and strong military spending, Democrats focus on social safety nets and affordable education (especially college): both, however, support free trade (even if it means exporting US jobs) and have allowed bankers free rein to do as they want.

Bernie tries, but Trump does

Just as the British Labour Party leader, Jeremy Corbyn, took a strong leftist stance that makes him almost *unelectable* (as Prime Minister), Bernie Sanders too tried to pull the Democratic Party to the left. He tapped into the informed, college-educated version of Trump's disaffected supporters. Unfortunately, Sanders had a relatively narrow base of voters (the young, college-educated who live primarily on the East and West coasts), and did not discredit the political establishment as effectively as Trump has.

Furthermore, one cannot help but think that multinational corporations may have found Hillary more palatable than Sanders; hence, the institutional bias against Sanders that was revealed by leaked DNC emails.

Trump, on the other hand, does not need to cater to these corporates. If he needs airtime, his outrageous and offensive statements are sufficient. As ratings are driven by public viewership, Trump ensures that he remains in the public eye. Even before Trump's entry into politics, he was regular fodder for New York tabloids, which eagerly followed his business ventures and colorful social life. Cable networks are drawn to Trump, even if it is against the long-term interests of the American establishment that ultimately sustains them.

As an outsider, Donald Trump is financially independent compared to most career-driven politicians – he does not have to play by the rules. Trump only provides sound-bites to reveal his thinking, then relies on attacking what others have to say and sneers at their ties to the establishment.

He uses simple caricatures (*crooked* Hillary, *lyin'* Ted, *low-energy* Jeb, *little* Marco) to ensure that viewers understand his opponent's weaknesses. His ability to understand what a large disenfranchised vote-bank wants to hear, and to frame his message in a manner that is simple and engaging, created a grass-root following that is perhaps unprecedented.

Most of these people are blue-collar or middle-class, socially conservative and not college educated – in other words, the traditional Republican base.

What happens after November 2016?

Regardless of whether Hillary or Trump enter the White House, the US will be a nation divided.

To gauge how Trump could change the US political landscape, what he does on November 9th is critical. Let's assume Trump loses the election, and eventually concedes his defeat (after claiming the elections were rigged, and perhaps creating a legal challenge). The issue is whether he intends to remain in the political arena or return to his business interests. Even here, Trump's commercial interests in creating his own cable network, could have strong political consequences.

If he wants to make a clean break from politics, he is likely to approach the Republican leadership, and negotiate how his supporters are to be re-integrated into the traditional GOP. He would then appeal to his supporters to close ranks with the Republicans, but hold firm on their demand for a leadership that is sensitive to their needs.

Another plausible scenario, is that he remains politically ambitious despite his defeat, but comes under immense pressure from conciliatory Republicans to keep the party united, at least in name. Trump may realize that in order to create a third party, a number of seats must be won in the Senate and the House of Representatives, which would be very complicated and expensive. Hence, Trump may reach a détente with the Republican establishment, compromising on various issues.

This outcome would see a new Republican party emerge, one that is more socially conservative, committed to some level of protectionism, and more rigid on immigration. Eventually, some career Republicans could become neo-Trumpists (with his political views but without his free-spiritedness).

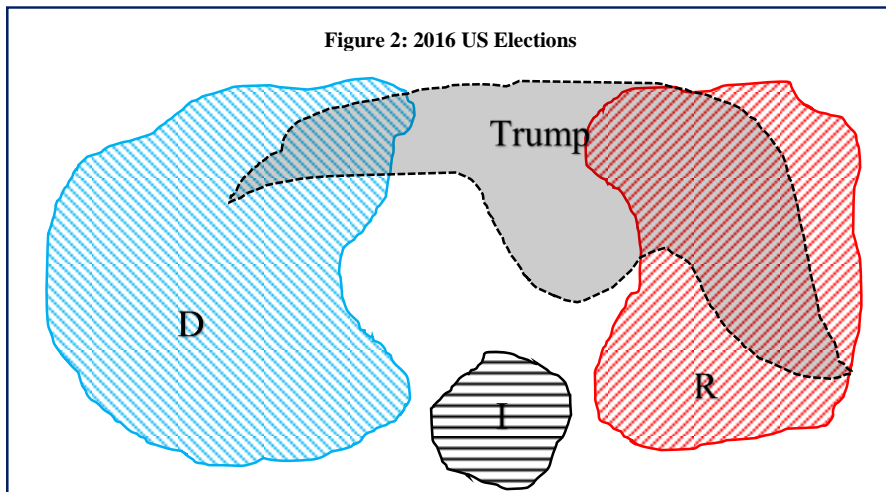
Another possible scenario is that Trump feels empowered enough to part ways with the Republican Party, and creates his own political movement. If this “party” manages to secure sufficient seats in the US Congress, they may become the critical swing vote on various issues, siding with either mainstream party depending on the deal that can be negotiated. This could weaken bipartisan division on key policy matters.

In the event that Trump supporters are able to sustain a new political party, we would assign the existing political groups more explicit ideological identities:

- Conservative Republicans (the Reagan and H.W. Bush Republicans);
- Liberal Democrats (the Democratic Party that shifts towards Sander’s policy platform);
- Traditional America (the constituency that Donald Trump has energized);
- Libertarians; &
- The Green Party.

It is instructive to rethink what the 3 major parties (described above) stand for. What is interesting is that Trump’s position does not fall neatly into the Republican camp (see **Figure 1**).

- The Democrats (*Liberal Democrats*) seek to achieve a tolerant, multicultural and equitable society, where income inequality should be reversed with some urgency. They see Wall



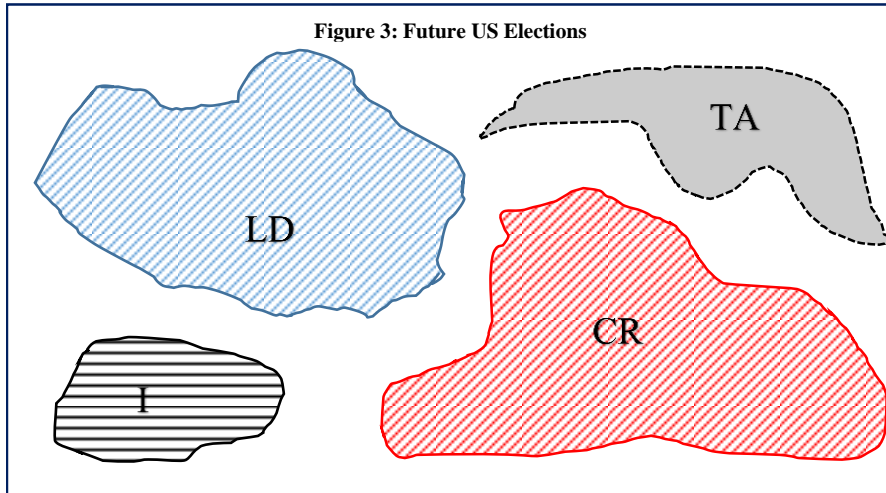
Street and big corporates as the embodiment of what has gone wrong in American society.

- Trump supporters (*Traditional America*) are primarily people who have seen their living standards fall since the 1980s. They are socially conservative, blue-

collar workers who dislike welfare, and live in tightly-knit communities that are predominantly white. Their anger has been stoked for decades by right-wing media (e.g. Limbaugh & Breitbart), which has demonized Liberals and promoted conspiracy theories

about how the *establishment* is only driven by moneyed interests. Part of the narrative is racist and xenophobic.

- Republicans (or *Conservative Republicans*) want to protect what they have, and build it further. They fear big government and large public debt, as it threatens the surpluses they have accumulated. They want lower taxes, and are against the welfare system and



Affirmative Action.

If Trump is able to consolidate his political legitimacy, the US political landscape could transition from **Figure 2** to **Figure 3**.

It's not just the US

One finds strong parallels between what is happening politically in the US and Western Europe. On both sides

of the Atlantic, people feel estranged from their political system, as their concerns have been denied political expression.

At the risk of being too narrow in our assessment, the underlying cause of the political and economic malaise in Western Europe and the US, can be traced to the globalization movement that took hold in the 1990s. This may have triggered the political shift that Bill Clinton (1992-2000) took towards the center, and the more pronounced New Labour movement by Tony Blair (1997-2007).

Globalization created a set of winners (corporates, banks, the economic elite) and a much larger number of losers who were effectively abandoned by the political establishment. The traditional watchdogs of the have-nots, chose to ignore the socio-economic dislocation with promises of better-paying "high-tech" jobs that never materialized. Trump simply courted the losers.

Impact on the global economy

If there is a growing political constituency for protection from free trade and job security (in the US and Europe), the following policy steps could be implemented: (1) punitive tariffs on select products from select countries; (2) policies to discourage mechanization in US factories; (3) subsidies for in-house training to eliminate redundancy of blue-collar jobs; and (4) reigning in the behavior of multinational corporates that have exacerbated the divide between the *haves* and the *have-nots*.

Trade protection by the US will increase the price of consumer goods to American customers, and reduce the efficiency of US factories. While this may appear regressive, this is the economic trade-off between efficiency and equity.

What lies ahead is very uncertain. If the US imposes punitive tariffs, aggrieved countries could retaliate by taxing American companies more heavily, which in turn would trigger further steps from the US. In effect, policy decisions to protect blue-collar jobs in one country could see equivalent steps by key trading partners.

Protectionism will reduce global efficiency; reduce consumer welfare; and sharply reduce the volume of global trade. This may be the price the global economy will have to pay to compensate for the dislocation created by globalization in a democratic political system. In our view, Brexit and Trump reveal that policymakers did not do enough to transition those who lost out from globalization.

Impact on Pakistan

The western media has flagged the close affinity between Trump, and Modi's right-wing government – Trump's business interests in India are also well documented. Furthermore, Middle America may not have a favorable impression of Pakistan, as Osama bin Laden and Al-Qaeda have been linked with the country since 9/11. Moreover, a Clinton presidency would further strengthen US foreign policy, which is reaching out to India as a strategic partner for the 21st century.

None of this bodes well for Pakistan.

On the other hand, one could argue that Pakistan's outlook is unlikely to be significantly impacted by who wins the US elections. Given the significant geo-political forces that are already in play in Asia (CPEC), whoever enters the White House will not materially change the dynamics between the US and Pakistan.

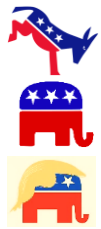
In terms of the economic impact, since Pakistan is not a trade-driven economy, the slowdown in global trade will not be as painful as it could be for the OECD, or trade-based economies like Singapore and South East Asia.

Conclusion

If certain segments of American society want to protect their livelihoods by imposing trade barriers (or re-negotiating trade treaties), it is their right to vote accordingly. While the efficiency losses should be obvious, taking this policy step boils down to a very basic argument: for those who have not gained from globalization (and have recently discovered a voice), they will demand policies to increase their share of the pie, even if these policies will slow the rate at which the pie grows.

The economic rationale for free trade is undisputed in theory, and is intuitively appealing, but it assumes a seamless socio-economic transition. As millions of Americans are now reminding us, this does not happen in the real world. In terms of the elections on November 8th, even if Trump loses, the movement he has energized is unlikely to disappear from America's political landscape.

Figure 1: Where Political Parties Fall on Topical Issues



Liberal Socialists (Angry Donkey)
 Conservative Republicans (Elephant)
 Traditional America (Triumphant Elephant)

