*June 8, 2020*

The Geopolitics of the 2020 Election: Part III

In this five-part series on the geopolitics of the 2020 election, we have divided the reports into nine sections. Last week, in Part II, we discussed the second and third sections, understanding the electorate and party coalitions. In this report, we continue our coverage with the fourth and fifth sections, the incidence of the establishment coalition and the impact of social media.

The Incidence of the Establishment Coalition

Ignoring the class interests of the populists has economic ramifications. The establishment "rebellion" in the late 1970s was in response to a serious inflation problem.

Source: Bureau of Labor Statistics/Haver Analytics
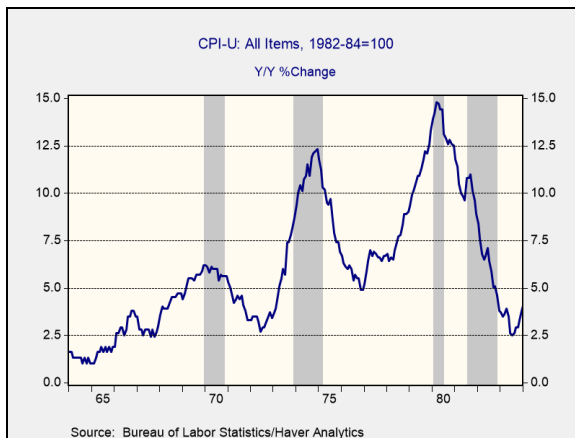
From the mid-1960s into the early 1980s, inflation rose with each business cycle, reaching a peak of 14.8%. The inflation problem was perceived to be caused by a constrained supply side. In response, policymakers adopted policies of

deregulation and globalization. These policies included the rollback of regulation, the offshoring of production, free trade agreements, increased immigration and sharply lower marginal tax rates. Inflation fell to acceptable levels; it is arguable the U.S. has experienced controlled inflation for nearly four decades.

The positive outcomes of these policies generally fell to the owners of capital, while labor bore the costs. Put another way, the populists suffered the negative consequences of these policies as the establishment flourished. Inequality rose, wages stagnated, and unionization collapsed. The following charts show what occurred.

INCOME SHARE OF THE TOP 10% OF HOUSEHOLDS

Sources: Emmanuel Saez, CIM
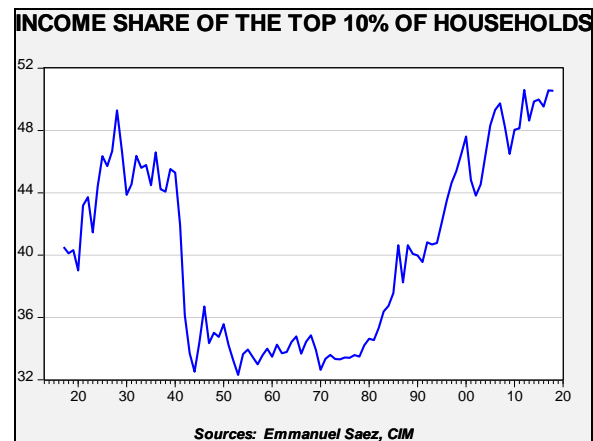
This chart shows the top 10% share of income from 1913 through 2018. The last year available shows that 50.5% of national income has gone to 10% of households, meaning, of course, that the bottom 90% are capturing 49.5% of income.

Measuring long-term wages is quite difficult. That's because jobs change over time as does the cost of living. What a household purchased 150 years ago doesn't

exactly match with what we buy now. Still, there are some series that try to capture wages. Measuringworth has a series of long-term data that can allow us to make some comparisons.

REAL WAGES, UNSKILLED PRODUCTION WORKERS

Sources: Measuringworth.org, CIM
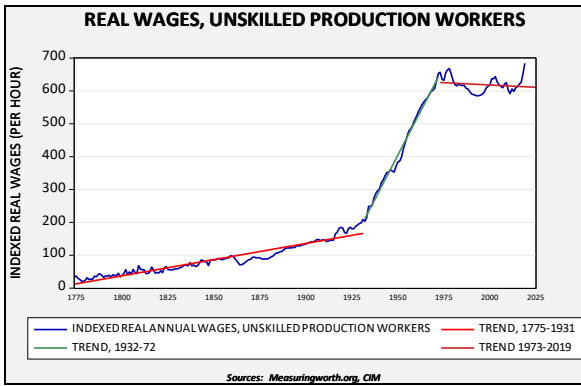
This chart shows inflation-adjusted wages for unskilled labor dating back to 1775.[1] We calculated trendlines from 1775 to 1931, 1932 to 1972, and 1973 to the present. In the first trend line, we see a gentle upslope in wages in the first one-and-a-half centuries of the U.S. Wages fell below trend in the Civil War and remained below trend during the Industrial Revolution. By 1890, wage growth had returned to trend. During WWI, wages rose well above trend. In the Roosevelt era into the early 1970s, wage growth rose at a strong clip. Although wages remained elevated in the 1970s, high inflation generally prevented further growth. But, since the early 1970s, as the trend line shows, wage growth has been mostly flat. It does tend to rise near the end of a long expansion but falls back to trend.

Rising globalization has been part of this policy mix. We have seen persistent current account deficits throughout the 1980s.

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[1] Because the data is indexed, it shows the change in the level but not the actual dollar wage. We deflate the data with annual CPI from the same source.

Source: Bureau of Economic Analysis/Haver Analytics
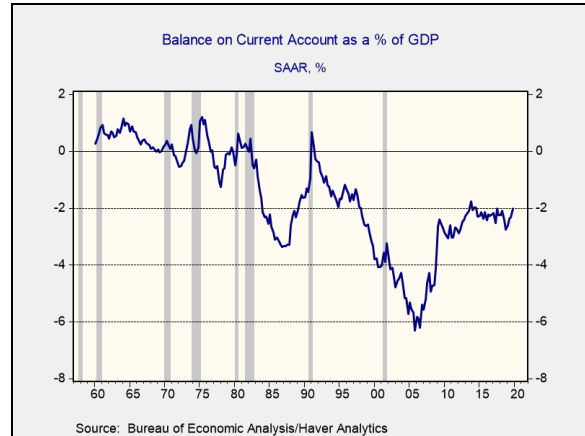
The persistence of these deficits is more than just offshoring. The U.S. fostered increasing global trade which required larger offshore dollar balances. The best way for countries to acquire dollars was by running trade surpluses with the U.S. Consequently, this led to larger U.S. trade deficits. However, the costs of this policy fell on the working class, who was competing with lower wage labor around the world.

Globalization isn't just about trade and offshoring. It's also about increased immigration.

PERCENT OF FOREIGN BORN POPULATION IN THE UNITED STATES


Source: Census Bureau, CIM
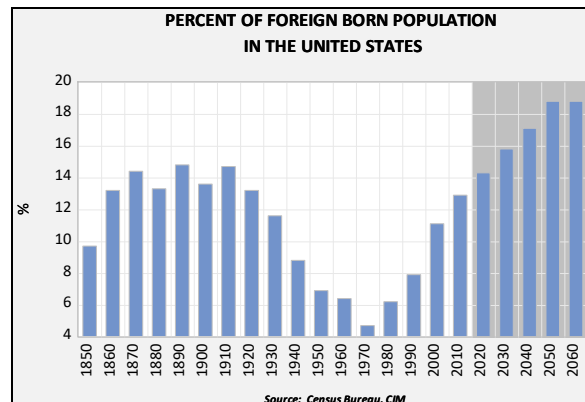
Compare the foreign-born level of the population and the wage trend graph. As the foreign-born level of the population fell, the sharp uptrend in wages rose during 1933-72. Although this isn't the only reason for the rise in wages, the lack of immigration likely played a role in supporting wage growth.

And, finally, these policies led to a decline in unionization.

TOP 10 % SHARE OF INCOME & UNION MEMBERSHIP

Sources: Emmanual Saez, Haver Analytics, CIM
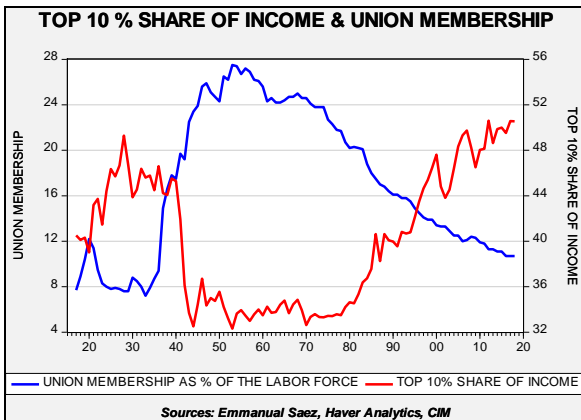
Unions can only flourish in conditions of restrained labor supply. The combination of increased technology, trade and immigration all contributed to the fall of union membership.

The loss of income growth led households to employ both spouses, complicating childcare. Eventually, there was the widespread use of consumer debt to maintain consumption.

DEBT VS. WAGES AS % OF CONSUMPTION

Sources: Haver Analytics, CIM
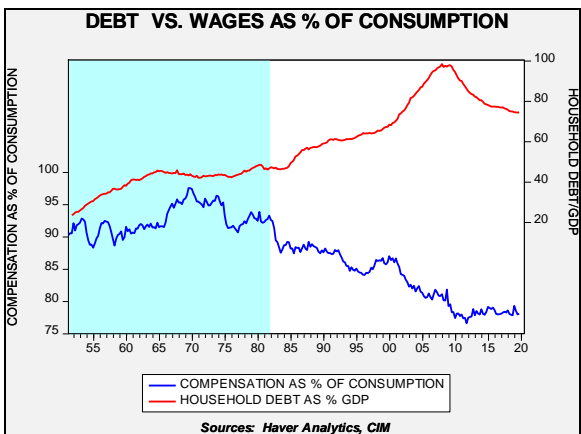
This chart shows how much of consumption is funded by total compensation and the level of household debt to GDP. Until the early 1980s, wages generally accounted for 90% to 97% of consumption. Since then the percentage has dropped below 80%. As compensation failed to keep up with consumption, debt rose…until the 2008 Financial Crisis, which revealed the fact that household debt had become excessive.

And so, the policies of the past four decades have generally been beneficial for the top 10% of households in terms of income and have been devastating for lower income households. It has led to declining income. Higher paying unskilled jobs have become less prevalent, and household debt levels have become unsustainable. Angus Deaton and Anne Case have done extensive research on what they describe as "Deaths of Despair"—fatalities caused by alcoholism, opioid addiction, obesity and suicide. This is the situation of the populists; however, the RWP are probably most affected because their status suffered with the breakdown of the Roosevelt Coalition.

This situation was brilliantly captured by columnist Peggy Noonan in a 2016 op-ed where she described the establishment and the populists as the protected and the unprotected, respectively. The establishment created an economy in which they didn't bear the risks associated with the policies they created. She states:

> *The protected make public policy.*
> *The unprotected live in it.*

It has become increasingly difficult for populists, but especially right-wing populists, to accept the establishment has their best interests at heart. They were told globalization and deregulation would be good for them. As the above charts show, it's hard to make that case. Accordingly, it has reached the point where populists don't know what to believe anymore. For example, we suspect many populists understand that climate change is occurring. Anyone looking at the changes in nature can see something is going on; areas that never needed air conditioning now require it. But

the rub is that if the populists agree with this position, they fear the policy prescription will cost them. In other words, if a carbon tax is the solution, the incidence will almost certainly be more negative for lower income households. So, instead, they argue that climate change either isn't real, is overstated or is due to natural changes, because to accept human actions as the primary cause invites greater burdens.

The Impact of Social Media
Into the 1990s, populists in both party alignments were becoming increasingly frustrated with their respective parties. The third-party candidacy of Ross Perot in the 1992 presidential election and the presence of Pat Buchanan in the GOP from 1992 into the new century were indicative of populist unrest. Among the left-wing populists, Ralph Nader represented a similar position. Neither the right- nor left-wing populists were able to win a presidential nomination, but these figures did represent growing dissatisfaction with the status quo.

Despite this growing dissatisfaction within both wings of populism, a populist candidate was never able to win the nomination for president…until 2008. Although Barack Obama proved to be LWE in his policies, he was perceived to be LWP; simply put, the populists who voted for him in 2008 thought they were getting one of their own.

So, how did Obama defeat a paragon of the establishment in Hillary Clinton and then handily win the presidency? Much of his success came from his campaign's ability to use social media to distribute his message. Using this tool occurred just as social media was expanding.

Changes in the media throughout history have been important. It is quite possible the Reformation may not have occurred without Gutenberg's moveable type, which allowed for the widespread distribution of the Bible. Newspapers became important vectors for political messaging; the Spanish-American War was partly driven by the "yellow press." Franklin Roosevelt used radio for his famous "fireside chats" during the Great Depression. Television ushered in political advertisement and the televised debate. Political campaigns have been forced to adjust to new forms of media and there appears to be a first-mover advantage.

Social media has undermined the power of political parties. Prior to the advent of social media, politicians relied on political parties for funding and advertising assistance. This gave the party leverage in selecting candidates. For national or statewide campaigns, the parties would seek candidates that fell into the "green oval" we discussed in Part II (shown below). Essentially, political parties could exclude "fringe" or "radical" candidates.
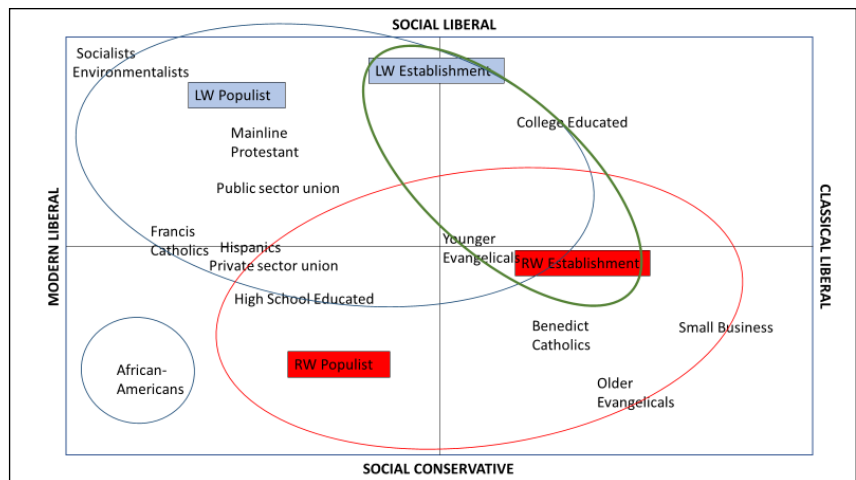
Social media brought two significant changes to how political campaigns are conducted. First, the costs of fundraising fell and the reach expanded. It became feasible to gather small donations with scale.

This sort of fundraising was cost-prohibitive before the advent of social media. Pre-social media, candidates were forced to solicit large donations from the wealthy and rely on the party for small donations. This situation forced politicians to be beholden to the wealthy and to the party, reducing the odds that a radical candidate could raise enough money for a national campaign.

Second, social media allowed the candidate to target very small groups of voters segregated by identity. In other words, voters might see ads that match their income, geography, education level, religious affiliation, gun ownership, race, etc. Before social media, such advertising was almost impossible. Because people tend to "tell their story" on social media based on their internet search patterns (what they buy and who they follow), the data gathered on social media gives campaigns a detailed profile of voters. ***Once this data is in hand, these voters can be targeted with exclusive ads that probably won't be seen by others for whom those ads were not directed.*** This means that, for the first time, a campaign can send messages to different groups and be reasonably confident another constituency which might oppose this ad won't see it. Campaigns can also distribute negative ads against an opponent tailored to a small group of voters. Simply put, social media fundamentally changes the landscape.

The 2016 presidential election confirmed the importance of social media. In the primaries, Sen. Bernie Sanders (I-VT) ran a very strong campaign against Secretary of State Hillary Clinton. Under conditions of dominant political parties, Sanders would have never been able to run a national campaign; he treated the wealthy with contempt and could not have raised money from them. Prior to 2016, he was a candidate with narrow appeal, only able to

win in a small state. But with the rise of social media, his message proved to be popular with the LWP and some RWP members as well. He was able to raise money from small donors and compete much longer than expected due to the cost of advertising being much lower on social media.

Nevertheless, the surprise of the election was Donald Trump. Although he was wealthy, his election resources were dwarfed by Clinton. [She raised nearly twice what he raised](#). Still, in the end, he was able to overcome this lack of money through savvy spending and a strong [social media campaign](#).

There is another impact of social media that has likely exacerbated the growing degree of partisanship. Two political scientists, Keith Poole and Howard Rosenthal, have done exhaustive research into the level of partisanship in Congress.
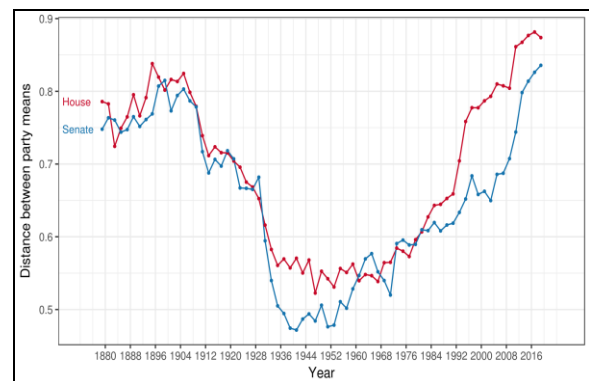
(Source: Rosenthal and Poole)

The data is structured in such a way that the higher the score, the greater the degree of partisanship. The data suggests that Congress has never been as deeply divided between conservatives and liberals as it is currently.

It is clear there was a decline in partisanship after Theodore Roosevelt's election. His progressive policies seemed to ease tensions

that the disruption caused by the industrial revolution unleashed. Bipartisanship increased during the Great Depression and continued during the Cold War. It appears that three factors led to this low degree of partisanship:

1. As noted, the Roosevelt Coalition was remarkably stable and effectively sidelined opposition.
2. The Cold War demanded unified foreign policy.
3. Television media was expensive; the lack of choice among networks and regulations tended to narrow acceptable viewpoints.

As these factors changed, partisanship began to rise. First, as we noted above, the breakdown of the Roosevelt Coalition led to the opposing political camps. Second, the waning of the Cold War disrupted the unity on foreign policy. Third, the end of the Fairness Doctrine in 1987 and the rise of cable news led to media outlets tailored to specific audiences.

Social media and the internet have probably exacerbated partisanship. Not only can voters choose to watch certain cable news stations, but they can select increasingly segregated sources of information on social media. A Pew study from 2008 showed that political users of the internet tended to visit sites that shared their point of view. Twitter (TWTR, 29.71) users tend to self-segregate who they follow and retweet.

This data is supported by anecdotal reports of deep political divisions. Surveys suggest that parents are more comfortable with their offspring marrying someone of a different race or creed than one of the opposite political party. Political divisions now

define news sources; at the same time, there is a high degree of distrust of news reporting.

This isn't to say that the U.S. hasn't had partisan media in its history. It was not uncommon for even medium-sized cities to have more than one daily newspaper, where one paper was considered the "conservative" and the other the "liberal" paper. But what makes the current environment different is that social media reduces the costs of distribution to not just partisan media but to fringe elements as well. The *Spotlight* was a right-wing populist weekly published in the 1970s. It was considered populist and nationalist; its circulation peaked at 315k in 1981. Compare that to the distribution potential for social media.
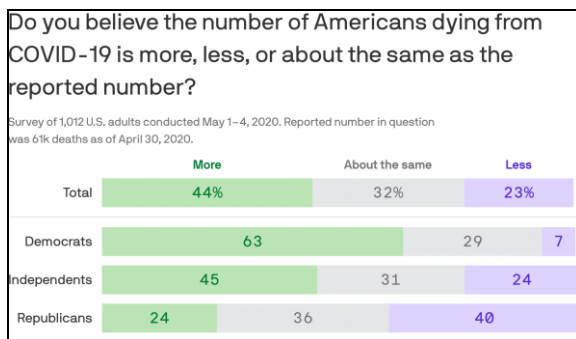
In this hyper-partisan environment, voters are inclined to believe only the positive aspects of their favored party and expect the worst from the opposition. Again, returning to our political grid, the new coalitions are divided with only modest overlap.
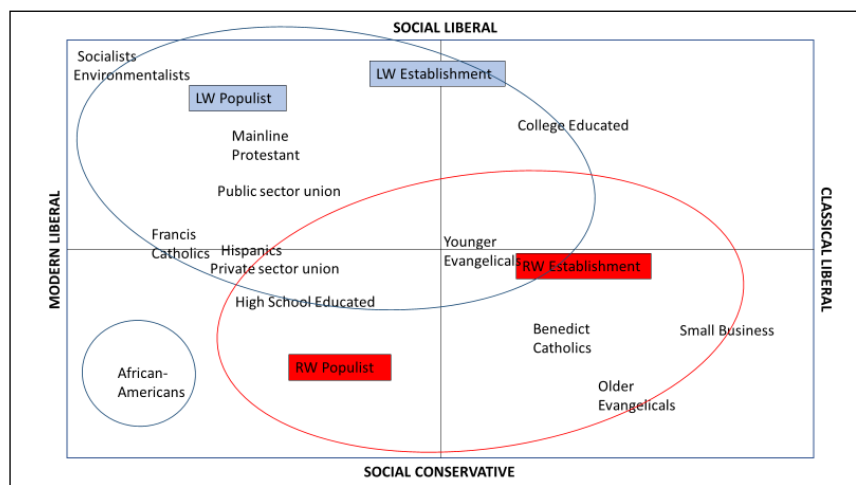
Political divisions have mostly eliminated the concept of the "loyal opposition." Historically, in a functioning democracy, the losing party believes that elected officials of the opposition are legitimate officeholders. They may disagree with them on many

issues, but they don't believe they are illegitimate. However, in the past three presidencies we have seen a growing tendency for the opposition to view the president as illegitimate. President George W. Bush was seen as illegitimate due to Florida's vote being decided by the Supreme Court. President Barack Obama was in question because of allegations that he was foreign-born. President Donald Trump is seen as tainted because of Russian interference in the electoral process. When a president is seen as gaining office through illicit means the opposition is no longer loyal; it becomes the resistance. Resistance tends to foster attitudes in which the end justifies the means, whereby preventing an illegitimate president from exercising power becomes justified. The U.S. has political conditions in place to where a sizeable minority views the president as illegitimate regardless of who is in office.

These divisions exhibit themselves in different ways beyond just politics. Views on current events are shaped by political stance. For example, perceptions of the number of fatalities from COVID-19 appear to be skewed by political leanings.

Do you believe the number of Americans dying from COVID-19 is more, less, or about the same as the reported number?

Survey of 1,012 U.S. adults conducted May 1–4, 2020. Reported number in question was 61k deaths as of April 30, 2020.

	More	About the same	Less
Total	44%	32%	23%
Democrats	63	29	7
Independents	45	31	24
Republicans	24	36	40

(Data: Ipsos/Axios survey. Margin of error: ±3.2 points. Chart: Naema Ahmed/Axios)

There has also been a change in how elections have evolved. Since elections are, at their heart, popularity contests, it would seem that the largest coalition should win. And so, working to broaden a party's

support among the various identities would seem to make sense. However, there is growing evidence that the conventional wisdom described above only worked during the Roosevelt Coalition years. Increasingly, as Karl Rove and Rachel Bitecofer (among others) have concluded, it seems there is no such thing as a "swing voter." Winning elections has become more about getting your supporters to vote and getting your opponent's voters to stay home. The idea, known as "negative partisanship," postulates that voters are energized less about their candidate than loathing the other side. Winning elections requires getting one's coalition to the polls, so that the most effective plan may be for one side's voters to fear the other side winning rather than loving the candidate of their own party.

Of course, we did see counties flip from Obama in 2008 and 2012 to Trump in 2016. Bitecofer argues that this occurred because of the deep dislike of Hillary Clinton among populist voters; these areas went for Obama more because they rejected the establishment GOP candidates they were offered.

Just because this is how politics works now doesn't mean it will be the case forever. We suspect that much of negative partisanship is a function of coalitions that can win elections but struggle to govern. A case can probably be made that it is hard to govern when the opposition views the party in power as illegitimate. Therefore, we have noticed a tendency for pundits to project that each presidency represents a seminal change that will create a new governing coalition. What we have observed is that every eight years the party in power flips because the coalition built by the president in power was unique to him and not transferable.

Creating a longer lasting coalition probably requires at least two of the alignments addressing both identity and class goals. Currently, the establishment is addressing only their class interests and using identity to capture votes. The secret of the Roosevelt Coalition was that it did address the class interests of the RWP. One potential outcome is the Nader coalition, which was attempted by Bobby Kennedy; this would be a coalition of the LWP/RWP that would better represent the class interests of populists. Ralph Nader has argued that this alignment is workable,[2] although it isn't obvious how the differences in identity could be overcome. Italy did have such a government from June 2018 into September 2019 but feuding among the League and the Five-Star Movement led to calling new elections which left the League out of the ruling coalition. So, for the foreseeable future, we expect the current state of affairs to remain.

Before we move on to the next section, there are two more observations we want to make. The last two presidents have been unconventional selections—a young, African American, first-term senator with a modest political track record and a real

estate developer with no political experience are clear breaks from normal. This tells us that conditions have deteriorated enough for many voters to "take a chance" on an unconventional candidate. In addition, the fact that an avowed socialist ran two strong primaries is *prima facie* evidence that voters are dissatisfied with establishment candidates. We suspect voters will continue to trend toward the unconventional until the lot of the RWP and LWP improves.

Second, the elections since 2008 reflect that the coalitions are in flux. Eventually, a political figure will rise who can build a working coalition that will be stable. Current coalitions have been remarkably dependent on a political figure; Hillary Clinton was unable to maintain the Obama coalition and it remains to be seen if the next GOP leader can hold the Trump coalition together. We believe these conditions suggest that the U.S. is in the process of resetting coalitions, perhaps for the post-hegemonic America.

Part IV
Next week, sections six and seven will cover our projection for the election and examine foreign interactions on our election.

Bill O'Grady
June 8, 2020

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[2] Nader, Ralph. (2014). *Unstoppable: The Emerging Left-Right Alliance to Dismantle the Corporate State*. New York, NY: Nation Books.