

American Political Decay or Renewal? The Meaning of the 2016 Election

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Two years ago, I argued [in these pages](#) [1] that America was suffering from political decay. The country's constitutional system of checks and balances, combined with partisan polarization and the rise of well-financed interest groups, had combined to yield what I labeled "vetocracy," a situation in which it was easier to stop government from doing things than it was to use government to promote the common good. Recurrent budgetary crises, stagnating bureaucracy, and a lack of policy innovation were the hallmarks of a political system in disarray.

On the surface, the [2016 presidential election](#) [2] seems to be bearing out this analysis. The once proud [Republican Party](#) [3] lost control of its nominating process to [Donald Trump](#) [4]'s hostile takeover and is riven with deep internal contradictions. On the Democratic side, meanwhile, the ultra-insider [Hillary Clinton](#) [5] has faced surprisingly strong competition from [Bernie Sanders](#) [6], a 74-year-old self-proclaimed democratic socialist. Whatever the issue—from immigration to financial reform to trade to stagnating incomes—large numbers of voters on both sides of the spectrum have risen up against what they see as a corrupt, self-dealing Establishment, turning to radical outsiders in the hopes of a purifying cleanse.

In fact, however, the turbulent campaign has shown that American democracy is in some ways in better working order than expected. Whatever one might think of their choices, voters have flocked to the polls in state after state and wrested control of the political

narrative from organized interest groups and oligarchs. Jeb Bush, the son and brother of presidents who once seemed the inevitable Republican choice, ignominiously withdrew from the race in February after having blown through more than \$130 million (together with his super PAC). Sanders, meanwhile, limiting himself to small donations and pledging to disempower the financial elite that supports his opponent, has raised even more than Bush and nipped at Clinton's heels throughout.

The real story of this election is that after several decades, American democracy is finally responding to the rise of inequality and the economic stagnation experienced by most of the population. Social class is now back at the heart of American politics, trumping other cleavages—race, ethnicity, gender, sexual orientation, geography—that had dominated discussion in recent elections.

The gap between the fortunes of elites and those of the rest of the public has been growing for two generations, but only now is it coming to dominate national politics. What really needs to be explained is not why populists have been able to make such gains this cycle but why it took them so long to do so. Moreover, although it is good to know that the U.S. political system is less ossified and less in thrall to monied elites than many assumed, the nostrums being hawked by the populist crusaders are nearly entirely unhelpful, and if embraced, they would stifle growth, exacerbate malaise, and make the situation worse rather than better. So now that the elites have been shocked out of their smug complacency, the time has come for them to devise more workable solutions to the problems they can no longer deny or ignore.

THE SOCIAL BASIS OF POPULISM

In recent years, it has become ever harder to deny that incomes have been stagnating for most U.S. citizens even as elites have done better than ever, generating rising inequality throughout American society. Certain basic facts, such as the enormously increased share of national wealth taken by the top one percent, and indeed the top 0.1 percent, are increasingly uncontested. What is new this political cycle is that attention has started to

turn from the excesses of the oligarchy to the straitened circumstances of those left behind.

Two recent books—Charles Murray’s *Coming Apart* [7] and Robert Putnam’s *Our Kids* [8]—lay out the new social reality in painful detail. Murray and Putnam are at opposite ends of the political spectrum, one a libertarian conservative and the other a mainstream liberal, yet the data they report are virtually identical. Working-class incomes have declined over the past generation, most dramatically for white men with a high school education or less. For this group, Trump’s slogan, “Make America Great Again!” has real meaning. But the pathologies they suffer from go much deeper and are revealed in data on crime, drug use, and single-parent families.

Back in the 1980s, there was a broad national conversation about the emergence of an African American underclass—that is, a mass of underemployed and underskilled people whose poverty seemed self-replicating because it led to broken families that were unable to transmit the kinds of social norms and behaviors required to compete in the job market. Today, the white working class is in virtually the same position as the black underclass was back then.

During the run-up to the primary in New Hampshire—a state that is about as white and rural as any in the country—many Americans were likely surprised to learn that voters’ most important concern there was heroin addiction. In fact, opioid and methamphetamine addiction have become as epidemic in rural white communities in states such as Indiana and Kentucky as crack was in the inner city a generation ago. A recent paper by the economists Anne Case and Angus Deaton showed that the death rates for white non-Hispanic middle-aged men in the United States rose between 1999 and 2013, even as they fell for virtually every other population group and in every other rich country. The causes of this increase appear to have been suicide, drugs, and alcohol—nearly half a million excess deaths over what would have been expected. And crime rates for this group have skyrocketed as well.

This increasingly bleak reality, however, scarcely registered with American elites—not least because over the same period, they themselves were doing quite well. People with at least a college education have seen their fortunes rise over the decades. Rates of divorce and single-parent families have decreased among this group, neighborhood crime has fallen steadily, cities have been reclaimed for young urbanites, and technologies such as the Internet and social media have powered social trust and new forms of community engagement. For this group, helicopter parents are a bigger problem than latchkey children.

THE FAILURE OF POLITICS

Given the enormity of the social shift that has occurred, the real question is not why the United States has populism in 2016 but why the explosion did not occur much earlier. And here there has indeed been a problem of representation in American institutions: neither political party has served the declining group well.

In recent decades, the Republican Party has been an uneasy coalition of business elites and social conservatives, the former providing money, and the latter primary votes. The business elites, represented by the editorial page of *The Wall Street Journal*, have been principled advocates of economic liberalism: free markets, free trade, and open immigration. It was Republicans who provided the votes to pass trade legislation such as the North American Free Trade Agreement and the recent trade promotion authority (more commonly known as “fast track”). Their business backers clearly benefit from both the import of foreign labor, skilled and unskilled, and a global trading system that allows them to export and invest around the globe. Republicans pushed for the dismantling of the Depression-era system of bank regulation that laid the groundwork for the subprime meltdown and the resulting financial crisis of 2008. And they have been ideologically committed to cutting taxes on wealthy Americans, undermining the power of labor unions, and reducing social services that stood to benefit the less well-off.

This agenda ran directly counter to the interests of the working class. The causes of the working class’ decline are complex, having to do as much with technological change as

with factors touched by public policy. And yet it is undeniable that the pro-market shift promoted by Republican elites in recent decades has exerted downward pressure on working-class incomes, both by exposing workers to more ruthless technological and global competition and by paring back various protections and social benefits left over from the New Deal. (Countries such as Germany and the Netherlands, which have done more to protect their workers, have not seen comparable increases in inequality.) It should not be surprising, therefore, that the biggest and most emotional fight this year is the one taking place within the Republican Party, as its working-class base expresses a clear preference for more nationalist economic policies.

The Democrats, for their part, have traditionally seen themselves as champions of the common man and can still count on a shrinking base of trade union members to help get out the vote. But they have also failed this constituency. Since the rise of Bill Clinton's "third way," elites in the Democratic Party have embraced the post-Reagan consensus on the benefits of free trade and immigration. They were complicit in the dismantling of bank regulation in the 1990s and have tried to buy off, rather than support, the labor movement over its objections to trade agreements.

But the more important problem with the Democrats is that the party has embraced identity politics as its core value. The party has won recent elections by mobilizing a coalition of population segments: women, African Americans, young urbanites, gays, and environmentalists. The one group it has completely lost touch with is the same white working class that was the bedrock of Franklin Roosevelt's New Deal coalition. The white working class began voting Republican in the 1980s over cultural issues such as patriotism, gun rights, abortion, and religion. Clinton won back enough of them in the 1990s to be elected twice (with pluralities each time), but since then, they have been a more reliable constituency for the Republican Party, despite the fact that elite Republican economic policies are at odds with their economic interests. This is why, in a Quinnipiac University [survey](#) [9] released in April, 80 percent of Trump's supporters polled said they felt that "the government has gone too far in assisting minority groups," and 85 percent agreed that "America has lost its identity."

The Democrats' fixation with identity explains one of the great mysteries of contemporary American politics—why rural working-class whites, particularly in southern states with limited social services, have flocked to the banner of the Republicans even though they have been among the greatest beneficiaries of Republican-opposed programs, such as Barack Obama [10]'s Affordable Care Act [11]. One reason is their perception that Obamacare was designed to benefit people other than themselves—in part because Democrats have lost their ability to speak to such voters (in contrast to in the 1930s, when southern rural whites were key supporters of Democratic Party welfare state initiatives such as the Tennessee Valley Authority).

THE END OF AN ERA?

Trump's policy pronouncements are confused and contradictory, coming as they do from a narcissistic media manipulator with no clear underlying ideology. But the common theme that has made him attractive to so many Republican primary voters is one that he shares to some extent with Sanders: an economic nationalist agenda designed to protect and restore the jobs of American workers. This explains both his opposition to immigration—not just illegal immigration but also skilled workers coming in on H1B visas—and his condemnation of American companies that move plants abroad to save on labor costs. He has criticized not only China for its currency manipulation but also friendly countries such as Japan and South Korea for undermining the United States' manufacturing base. And of course he is dead set against further trade liberalization, such as the Trans-Pacific Partnership [12] in Asia and the Transatlantic Trade and Investment Partnership with Europe.

All of this sounds like total heresy to anyone who has taken a basic college-level course in trade theory, where models from the Ricardian one of comparative advantage to the Heckscher-Ohlin factor endowment theory tell you that free trade is a win-win for trading partners, increasing all countries' aggregate incomes. And indeed, global output has exploded over the past two generations, as world trade and investment have been liberalized under the broad framework of the General Agreement on Tariffs and Trade and then the World Trade Organization, increasing fourfold between 1970 and 2008.

Globalization has been responsible for lifting hundreds of millions of people out of poverty in countries such as China and India and has generated unfathomable amounts of wealth in the United States.

Yet this consensus on the benefits of economic liberalization, shared by elites in both political parties, is not immune from criticism. Built into all the existing trade models is the conclusion that trade liberalization, while boosting aggregate income, will have potentially adverse distributional consequences—it will, in other words, create winners and losers. One recent study estimated that import competition from China was responsible for the loss of between two million and 2.4 million U.S. jobs from 1999 to 2011.

The standard response from trade economists is to argue that the gains from trade are sufficient to more than adequately compensate the losers, ideally through job training that will equip them with new skills. And thus, every major piece of trade legislation has been accompanied by a host of worker-retraining measures, as well as a phasing in of new rules to allow workers time to adjust.

In practice, however, this adjustment has often failed to materialize. The U.S. government has run 47 uncoordinated federal job-retraining programs (since consolidated into about a dozen), in addition to countless state-level ones. These have collectively failed to move large numbers of workers into higher-skilled positions. This is partly a failure of implementation, but it is also a failure of concept: it is not clear what kind of training can transform a 55-year-old assembly-line worker into a computer programmer or a Web designer. Nor does standard trade theory take account of the political economy of investment. Capital has always had collective-action advantages over labor, because it is more concentrated and easier to coordinate. This was one of the early arguments in favor of trade unionism, which has been severely eroded in the United States since the 1980s. And capital's advantages only increase with the high degree of capital mobility that has arisen in today's globalized world. Labor has become more mobile as well, but it is far more constrained. The bargaining advantages of unions are quickly undermined by

employers who can threaten to relocate not just to a right-to-work state but also to a completely different country.

Labor-cost differentials between the United States and many developing countries are so great that it is hard to imagine what sorts of policies could ultimately have protected the mass of low-skilled jobs. Perhaps not even Trump believes that shoes and shirts should still be made in America. Every industrialized nation in the world, including those that are much more committed to protecting their manufacturing bases, such as Germany and Japan, has seen a decline in the relative share of manufacturing over the past few decades. And even China [13] itself is beginning to lose jobs to automation and to lower-cost producers in places such as Bangladesh and Vietnam.

And yet the experience of a country such as Germany suggests that the path followed by the United States was not inevitable. German business elites never sought to undermine the power of their trade unions; to this day, wages are set across the German economy through government-sponsored negotiations between employers and unions. As a result, German labor costs are about 25 percent higher than their American counterparts. And yet Germany remains the third-largest exporter in the world, and the share of manufacturing employment in Germany, although declining, has remained consistently higher than that in the United States. Unlike the French and the Italians, the Germans have not sought to protect existing jobs through a thicket of labor laws; under Chancellor Gerhard Schröder's Agenda 2010 reforms, it became easier to lay off redundant workers. And yet the country has invested heavily in improving working-class skills through its apprenticeship program and other active labor-market interventions. The Germans also sought to protect more of the country's supply chain from endless outsourcing, connecting its fabled *Mittelstand*, that is, its small and medium-size businesses, to its large employers.

In the United States, in contrast, economists and public intellectuals portrayed the shift from a manufacturing economy to a postindustrial service-based one as inevitable, even something to be welcomed and hastened. Like the buggy whip makers of old, supposedly, manufacturing workers would retool themselves, becoming knowledge workers in a

flexible, outsourced, part-time new economy, where their new skills would earn them higher wages. Despite occasional gestures, however, neither political party took the retooling agenda seriously, as the centerpiece of a necessary adjustment process, nor did they invest in social programs designed to cushion the working class as it tried to adjust. And so white workers, like African Americans in earlier decades, were on their own.

The first decade of the century could have played out very differently. The Chinese today are not manipulating their currency to boost exports; if anything, they have been trying recently to support the value of the yuan in order to prevent capital flight. But they certainly did manipulate their currency in the years following the Asian financial crisis of 1997–98 and the dot-com crash of 2000–2001. It would have been entirely feasible for Washington to have threatened, or actually imposed, tariffs against Chinese imports back then in response. This would have entailed risks: consumer prices would have increased, and interest rates would have risen had the Chinese responded by not buying U.S. debt. Yet this possibility was not taken seriously by U.S. elites, for fear that it would start a slide down the slippery slope of protectionism. As a result, more than two million jobs were lost in the ensuing decade.

A WAY FORWARD?

Trump may have fastened onto something real in American society, but he is a singularly inappropriate instrument for taking advantage of the reform moment that this electoral upheaval represents. You cannot unwind 50 years of trade liberalization by imposing unilateral tariffs or filing criminal indictments against American multinationals that outsource jobs. At this point, the United States' economy is so interconnected with that of the rest of the world that the dangers of a global retreat into protectionism are all too real. Trump's proposals to abolish Obamacare would throw millions of working-class Americans off health insurance, and his proposed tax cuts would add more than \$10 trillion to the deficit over the next decade while benefiting only the rich. The country does need strong leadership, but by an institutional reformer who can make government truly effective, not by a personalistic demagogue who is willing to flout established rules.

Nonetheless, if elites profess to be genuinely concerned about inequality and the declining working class, they need to rethink some of their long-standing positions on immigration, trade, and investment. The intellectual challenge is to see whether it is possible to back away from globalization without cratering both the national and the global economy, with the goal of trading a little aggregate national income for greater domestic income equality.

Clearly, some changes are more workable than others, with immigration being at the top of the theoretically doable list. Comprehensive immigration reform has been in the works for more than a decade now and has failed for two reasons. First, opponents are opposed to “amnesty,” that is, giving existing undocumented immigrants a path to citizenship. But the second reason has to do with enforcement: critics point out that existing laws are not enforced and that earlier promises to enforce them have not been kept.

The idea that the government could deport 11 million people from the country, many of them with children who are U.S. citizens, seems highly implausible. So some form of amnesty appears inevitable. Immigration critics are right, however, that the United States has been very lax in enforcement. Doing this properly would require not a wall but something like a national biometric ID card, heavy investment in courts and police, and, above all, the political will to sanction employers who violate the rules. Moving to a much more restrictive policy on legal immigration, in which some form of amnesty for existing immigrants is exchanged for genuine efforts to enforce new and tougher rules, would not be economically disastrous. When the country did this before, in 1924, the way was paved, in certain respects, for the golden age of U.S. equality in the 1940s and 1950s.

It is harder to see a way forward on trade and investment, other than not ratifying existing deals such as the Trans-Pacific Partnership—which would not be extremely risky. The world is increasingly populated with economic nationalists, and a course reversal by Washington—which has built and sustained the current liberal international system—could well trigger a tidal wave of reprisals. Perhaps one place to start is to figure out a way to persuade U.S. multinationals, which currently are sitting on more than \$2 trillion in cash outside the United States, to bring their money home for domestic investment.

U.S. corporate tax rates are among the highest in the Organization for Economic Cooperation and Development; reducing them sharply while eliminating the myriad tax subsidies and exemptions that corporations have negotiated for themselves is a policy that could find support in both parties.

Another initiative would be a massive campaign to rebuild American infrastructure. The American Society of Civil Engineers estimates that it would take \$3.6 trillion to adequately upgrade the country's infrastructure by 2020. The United States could borrow \$1 trillion while interest rates are low and use it to fund a massive infrastructure initiative that would create huge numbers of jobs while raising U.S. productivity in the long run. Hillary Clinton has proposed spending \$275 billion, but that number is too modest.

But attempts to accomplish either goal would bump into the more routine dysfunctions of the American political system, where vetocracy prevents either tax reform or infrastructure investment. The American system makes it too easy for well-organized interest groups to block legislation and to "capture" new initiatives for their own purposes. So fixing the system to reduce veto points and streamline decision-making would have to be part of the reform agenda itself. Necessary changes should include eliminating both senatorial holds and the routine use of the filibuster and delegating budgeting and the formulation of complex legislation to smaller, more expert groups that can present coherent packages to Congress for up-or-down votes.

This is why the unexpected emergence of Trump and Sanders may signal a big opportunity. For all his faults, Trump has broken with the Republican orthodoxy that has prevailed since Ronald Reagan, a low-tax, small-safety-net orthodoxy that benefits corporations much more than their workers. Sanders similarly has mobilized the backlash from the left that has been so conspicuously missing since 2008.

"Populism" is the label that political elites attach to policies supported by ordinary citizens that they don't like. There is of course no reason why democratic voters should always choose wisely, particularly in an age when globalization makes policy choices so complex. But elites don't always choose correctly either, and their dismissal of the

popular choice often masks the nakedness of their own positions. Popular mobilizations are neither inherently bad nor inherently good; they can do great things, as during the Progressive era and the New Deal, but also terrible ones, as in Europe during the 1930s. The American political system has in fact suffered from substantial decay, and it will not be fixed unless popular anger is linked to wise leadership and good policies. It is still not too late for this to emerge.

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