

## Unintended Consequences

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For every action, there is an equal and opposite reaction.

This is Newton's Third Law of physics. Sir Isaac Newton (1643-1727) was an English mathematician, astronomer and physicist, recognized as one of the most influential scientists of all time and a key figure in the scientific revolution. Newton was one of history's most astute observers and analyzers of natural phenomena. He was able to translate observation into scientific and mathematical methods. Virtually every technological innovation we've experienced in our lifetime was built on the back of his scientific findings.

According to Newton's Third Law, when two objects interact, there is an equal and opposite action-reaction between them.

As a fish swims it pushes the water around it, which accelerates that water, pushing the fish forward. As a bird flaps its wings the force of the air pushing downward propels the bird upward. As a rifle is fired the gunpowder explosion creates hot gases that push the bullet through and out of the barrel. The recoil of the gun equals the force of the bullet being fired. Even breathing changes the structure of the air around us.

In the world of nature everything is a zero sum game, every action has its equal reaction. As the Armchair is fond of suggesting, what happens in nature gives us a framework to observe and evaluate the socioeconomic forces that affect our world.

What, then, were the forces that inspired over 60 million voters to pull the lever for Donald Trump? That many people were surely not duped by fake news and Russian Facebook posts. There had to be other forces at work.

The default answer for much of the taken-by-surprise media and establishment political elite is "populism." Voters didn't understand the true issues of our time. They were distracted and swayed by a Pied Piper playing the most attractive tune.

These media and political elites have yet to understand that Trump voters were primarily casting a vote for dramatic change from the status quo. If anyone was swayed by a Pied Piper, it was the establishment message for pushing forward tomorrow in the same direction as today. Over 60 million people did not want that future and did not believe it was the best future for their country.

Populism is often associated with nationalism, and nationalism is often associated with extremism. Hitler was a populist, they say, so Trump must be a Hitler. Although nationalism can lead to extremism, its origin is not so nefarious.

The nationalism we are seeing today comes from a growing belief among many that a country's interests have been subjugated to those not part of their tribe, their country. Nationalists are unhappy about the steady slide into globalization and the loose immigration policy that seems to have come with it. What is the action-reaction of globalization?

The globalization of today was born when Nixon went to China in 1972. The Chinese knew they needed a better economic model, and Nixon knew having Chinese “friends” would confound the Russians. Coincidentally, the OPEC oil embargoes in the 1970s caused U.S. energy, raw material and transportation costs to rise measurably. And during the 70s, union membership was at its peak in U.S. manufacturing. American manufacturers were in a corner. Raw material, power, transportation and labor costs seemed uncontrollable so they had to look for options. Moving manufacturing to parts of the world with low labor costs was the answer. So started the globalization movement.

This movement gradually grew in the 1980s. Then as technology and telecommunications capability exploded, so did the ability to move more and more manufacturing to cheaper labor markets. The 1990s were globalization's Cinderella years. The world looked bright to everyone. American consumers enjoyed cheaper products, and backward, Third World countries became emerging markets.

It was then that a negative reaction to the globalization movement started to appear. As more manufacturing moved offshore, the replacement jobs for affected U.S. workers paid less. Wages in the U.S. stagnated, and the middle class began to decline. The decline of the middle class gained further momentum in the 2000s. Today that decline is front-page news.

At the end of the day, the action of globalization allowed many Third World countries to emerge economically stronger. But the reaction was a debt explosion and expanding income inequality in the U.S.

**The debt explosion:** In 1975, U.S. government debt to GDP was right at 30%. Today it is around 110%. In 1975, U.S. consumer debt to GDP was around 40%. Today it is around 80%. Just from this particular debt to GDP data, it appears the U.S. basically borrowed more and more money to subsidize economic growth in emerging markets. A growing middle and upper class emerged in former Third World countries while an increasing number of people in the U.S became less wealthy.

**Expanding income inequality:** Today's top 1% of earners in the U.S. make more than three times what they did during the 1980s. At the same time, wages of the bottom 50% of today's earners in the U.S. have lagged inflation for 30 years. The masters of the universe who have been able to take advantage of globalization and technology are making all the money, while the Average Joe struggles to make ends meet. What's happening is a great leveling of wages. Average Joe's wages in emerging markets have risen, while those in the U.S. have stagnated over three decades.

All was sort of okay until the 2008 global financial crisis. The U.S. had “alleviated” the exacerbating middle class problem by encouraging banks to lend money to people who couldn't afford to pay it back. Wages weren't rising, so we increased the availability and affordability of debt. Consumer debt to GDP rose to 99%. This problem was magnified by Wall Street's “innovative” way to morph money into rapidly turning “inventory.” Without knowing it, we were living “proof” of economic alchemy until Lehman went bankrupt, putting the entire global economic system at risk of collapse.

Because there was so much debt in the U.S., Europe, Japan and China, sovereign central banks were forced to significantly lower interest rates and print money in order to stave off defaults around the world. This explosion of capital at ever-lower cost has only helped the business and financial elites even more. Now they can borrow more money to buy more robots to replace more labor. Lots of cheap money has also ratcheted up the value of operating companies and real estate, further enriching the elite class. All the while these lower interest rates have decimated the savings prospects of America's Average Joe.

To add insult to injury, now the global wealthy who made their money at the expense of the American middle class are returning to the U.S. to purchase mostly urban real estate, driving up values, which drives up cost to domestic workers. This makes it less and less affordable for anyone in rural America to move to the “job rich” urban American centers, puts further strain on middle class urban citizens, reduces worker mobility and holds back young first-time homebuyers.

Donald Trump's election was a watershed moment. No one knew this possible. Even Trump voters were highly skeptical he could win. But over 60 million people took the plunge and voted for him. Call Trump what you want, but the people spoke. The message from these voters should be loud and clear: *We are not interested in subsidizing the rest of the world's prosperity or the prosperity of the elite class. What about us?* To these voters, Trump embodies globalization's equal and opposite reaction.

Populism, nationalism, whatever you want to call it, is nothing more than the sovereign manifestation of humanity's natural instinct for self-preservation. As the number of economically displaced people grew, they became a political force. What can we expect going forward?

The globalization movement of the last 45 years has likely reached its zenith for this cycle. (There have been previous globalization movements, and there will be more.) Just as Nixon planted the seed for globalization in 1972, a new seed has been planted for nationalism, not just in the U.S. but also in other parts of the world. While the 1970s were the early days of globalization, today we're experiencing the early days of nationalism. That nationalism will slowly emphasize and energize more domestic manufacturing.

Made in the USA is going to be a continuing trend in our domestic economy for many years to come, most likely several decades. It actually started years ago. The U.S. farm-to-market movement evidences this change in social consciousness. Farmers' markets are expanding at double-digit rates. Look around and you'll see an explosion of local farmers, food makers, brewers and distillers. On Etsy.com you'll find an enormous number of all manner of craft makers. Many of the craft makers today will become the manufacturers of tomorrow.

Technological advances with robotics, manufacturing processes, logistics and connecting with consumers will facilitate Made in the USA growth. And now because of the shale oil and gas revolution, the U.S. has a global advantage in energy, power, transportation and some raw material costs.

Made in the USA is coming, and it's not just coming because of Trump. It was coming before Trump, and its momentum will persist after him. The forces that initially caused globalization are now turning to favor the U.S. And its citizens are speaking with not just their votes but also with their time and money. Who today isn't already thinking it's time to Buy Local?



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