

# POLS 409 & 589 / ECON 409: Political Economy from Great Recession through Pandemic

## SHOCKS AND TRENDS IN THE TWENTY-FIRST CENTURY

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# Shocks and Trends in the 21st Century

This course considers the political macro-economy in the 21st century, a time of great political & economic upheaval

Our study period is punctuated by two massive economic shocks: the Great Recession & the COVID-19 Pandemic

But shocks this big can conceal, accelerate, or reverse deeper long-run trends

These trends can take many forms: demographic shifts, political movements, technological change, shifts in capital or skills...

Our job in this course is to try to disentangle and understand the shocks and the trends that make up today's political economy

And today's world, as everyone is aware, is dominated by a massive political shock

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2025 brings a political shock on a scale not seen since the American Civil War:  
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- professed willingness to “burn it all down” and trigger a recession
- aggressive realignment of the US against democratic allies & neighbors and towards other territorially-expansionist authoritarian regimes

## Kategorising actions of the Trump Administration 20 January - 14 February 2025

Undermining Democratic Institutions & Rule of Law;  
Dismantling of Federal Government

Suppressing Dissent and  
Controlling Information

Attacking Science,  
Environment, Health,  
Arts & Education

Aggressive Foreign Policy &  
Global Destabilization

Dismantling Social Protections & Rights;  
Enrichment and Corruption

List, Categorisation and Graphic by Prof Christina Pagel

It's easy to substantiate  
numerous examples of the  
tactics listed above

It would take a whole  
course just to cataloge the  
major authoritarian actions  
of the current government  
so far

(and this is not that course)

Source: Christina Pagel, "'So this is how liberty dies...' Making sense of Trump's first three weeks," 15 February 2025,

<https://christinapagel.substack.com/p/so-this-is-how-liberty-dies-making>

# Shocks and Trends in the 21st Century

In America today, we face a regime following a playbook sourced from Hungary, Russia, and other places that have corrupted democracy into dictatorship by subduing every potential source of resistance and perverting every formal democratic institution

This grab for power – and demand for subjugation and decimation – has already ranged from core agencies of the state such as the Justice Department and IRS; to the nation's most prominent universities; to major media empires; to international students and tourists; to the NIH, hospitals, and cancer researchers; to the grocery store and auto dealership

In concert with using Elon Musk's money & platform to paralyze the Congressional majority, the regime wields the law as a Kafkaesque weapon against opponents and potential rivals, while exempting allies from the law to create a mafia-like network around Donald Trump

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"We look at these comparative cases in the 21st century, like Hungary and Poland and Turkey. And in a lot of respects, this is worse. These first two months have been much more aggressively authoritarian than almost any other comparable case I know of democratic backsliding." – Steven Levitsky, quoted in the *New York Times* 25 March 2025

# Shocks and Trends in the 21st Century

As we investigate the history of the past twenty years, it will be impossible not to ponder why it culminated in the collapse of the rule of law & democracy

Likewise, it is irresistible to wonder what history suggests will come next:  
authoritarian entrenchment? economic crisis? any chance of democratic restoration?

As challenging as it might be to tear our attention away from what is happening right now, let's ground ourselves in a broader context:

*How did we get here, to the 21st century political economy and its troubles?*

We start with a reference frame that looms in the imagination of many who lived through it: the so-called Golden Age of Capitalism

# 1947–1973: the Golden Age of Capitalism in the US & Europe

Growth was high, inflation and unemployment low,  
and wealth was spread more equitably than before



Source: David Leonhart, 2012, "Is simple demography behind weak economy?", *New York Times*, 17 August, <http://economix.blogs.nytimes.com/2012/08/17/demographic-changes-a-key-factor-in-slowing-economic-growth/>

# A brief history of the economies of the US and Europe

*What came before the "Golden Age"?*

**The Gilded Age of the late 19th century:** Constant boom and bust; high inequality; frequent financial crises and bank runs

**The 1920s Boom,** which many thought indicated a permanent oasis of stable growth

**The Great Depression:** A massive market crash sets off a financial crisis – debt-deflation spiral takes more than a decade of massive government stimulus to resolve

**World War II:** An orgy of destruction leaves the US intact and economically preeminent; Europe rebuilds



# A brief history of the economies of the US and Europe

*What came after the Golden Age?*

**The stagflation of the 1970s:** Oil shocks lead to high inflation and high unemployment, a combination of crises that stimulus can't solve

**The modest booms of the 1980s and 1990s:** Heralded as the Great Moderation – inflation falls and recessions moderate; central banks emerge as key economic actors

But signs of trouble – higher inequality, lower growth, and the return of financial crises:  
S&L in 1980s US; 1980s Latin American debt crises; Japan's Lost 1990s; 1998 Asian crisis;  
2002 Enron collapse

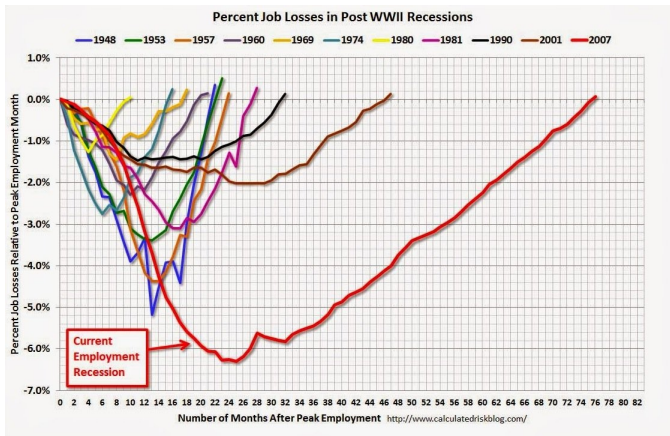
Most of all, asset bubbles emerge – first in stocks, then in housing

# A brief history of the economies of the US and Europe

**Great Recession:** Just as some are declaring, once again, that the economy has reached a permanently high plateau, the housing bubble bursts, the economy enters recession, and the banking system teeters on the edge of collapse...

We'll examine the crisis in detail over the coming weeks.

For now, let's get a big picture of the consequences...

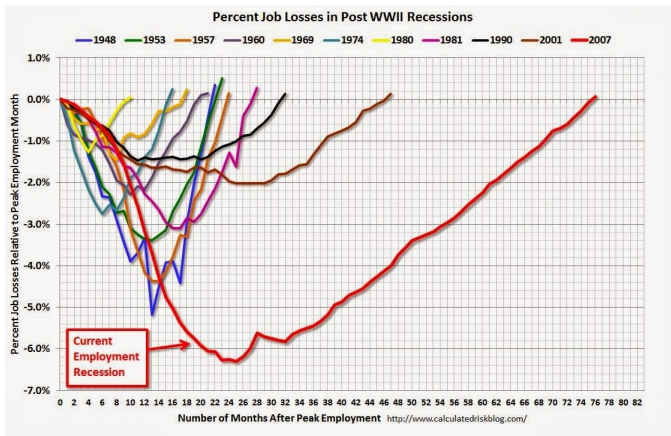


The global recession that began in 2007 was much worse than other recessions of the postwar period in the US and Europe...

Unemployment soared to 10% in the US and recovered slowly

Source: Joe Weisenthal, 2014, "The Scariest Chart Ever Is Dead," *Business Insider*, June

6. <http://www.businessinsider.com/the-scariest-chart-ever-is-dead-2014-6>



Job growth stubbornly refusing to accelerate – many looked at early versions of this chart in 2009 and correctly predicted 2014–2015 as the point at which jobs would return to pre-recession levels

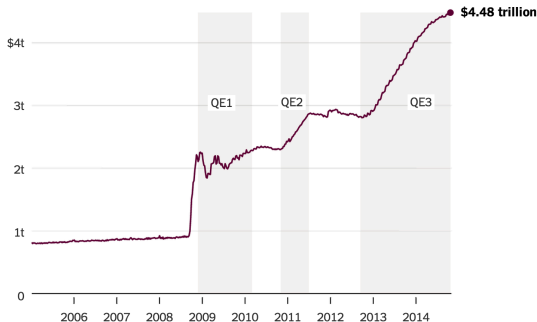
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## Quantitative Easing, in One Chart

In three phases since late 2008, the Federal Reserve has bought trillions of dollars in bonds using newly created money to stimulate the economy. QE3 is likely to end this month.

**Total assets held by the Federal Reserve**



Source: Federal Reserve

Source: Neil Irwin, 2014, "Quantitative easing is ending. Here's what it did, in charts."

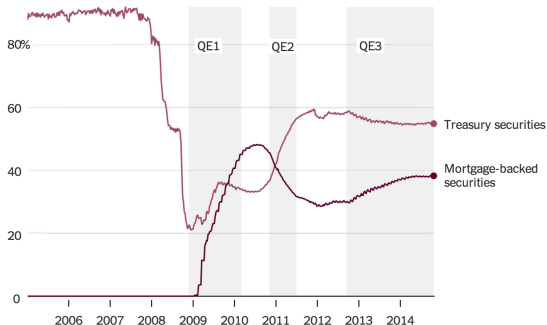
*New York Times*, 29 October. <http://www.nytimes.com/2014/10/30/upshot/quantitative-easing-is-about-to-end-heres-what-it-did-in-seven-charts.html>

One of the most important policy responses to the crisis was quantitative easing – the creation of a vast pool of liquidity by the Federal Reserve and other central banks

# The Fed Has Bought Vast Sums of Mortgage-Backed Bonds

In its first and third rounds of quantitative easing, the Fed bought not just the U.S. government debt it has traditionally owned, but securities backed by Americans' home mortgages.

**Percentage of total Federal Reserve assets**



The Fed soaked up an enormous amount of mortgage-backed debt...

Source: Neil Irwin, 2014, "Quantitative easing is ending. Here's what it did, in charts."

*New York Times*, 29 October. <http://www.nytimes.com/2014/10/30/upshot/>

quantitative-easing-is-about-to-end-heres-what-it-did-in-seven-charts.

html

## Consumer and Business Borrowing Costs Have Fallen

Amid the Fed's quantitative easing programs, interest rates for both American homebuyers and large businesses have fallen.

QE helped keep interest rates low, which encouraged investment



Mortgage rate is average 30-year fixed-rate mortgage. Corporate bond rate is yield on seasoned Baa-rated bonds.

Source: Moody's, Freddie Mac

Source: Neil Irwin, 2014, "Quantitative easing is ending. Here's what it did, in charts."

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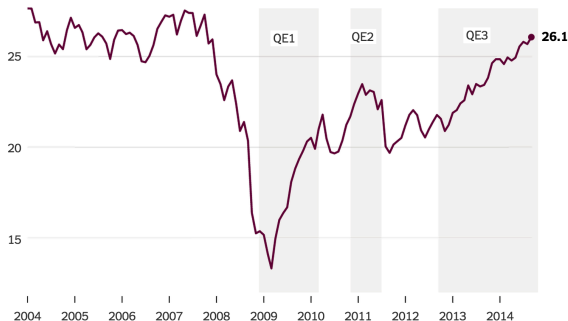
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## The Stock Market Has Returned to Pre-Bust Levels

Stocks are trading at a level they previously only reached during the late 1990s stock market bubble and just before the financial crisis.

**S&P 500-stock index, divided by average earnings over previous 10 years, inflation adjusted**



Source: Robert Shiller, Yale University

Source: Neil Irwin, 2014, "Quantitative easing is ending. Here's what it did, in charts."

*New York Times*, 29 October. <http://www.nytimes.com/2014/10/30/upshot/quantitative-easing-is-about-to-end-heres-what-it-did-in-seven-charts.html>

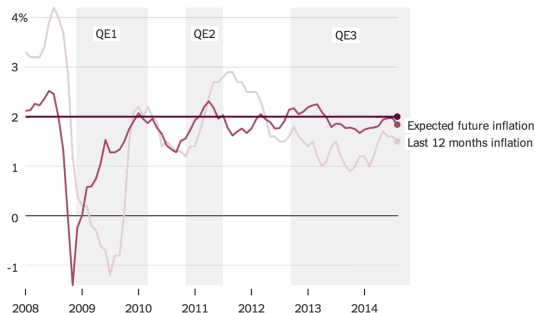
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By keeping interest rates low and bonds in high demand, QE also provided massive stimulus to asset prices



## Inflation Remains Below the Fed's Target

Both inflation and inflation expectations remain below the 2 percent annual rate the Fed aims for, despite three rounds of quantitative easing aimed at boosting inflation.



Expected future inflation is five-year breakeven between inflation-adjusted bonds and regular bonds. Last 12 months inflation is year-over-year change in the personal consumption expenditures price index.

Source: Federal Reserve, Bureau of Economic Analysis

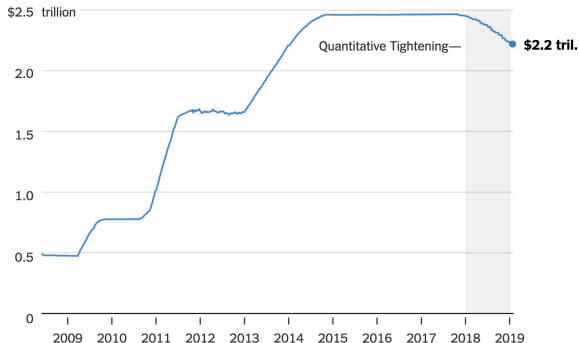
Source: Neil Irwin, 2014, "Quantitative easing is ending. Here's what it did, in charts."

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While some worried QE would produce high inflation, it only dented the massive deflation caused by the financial crisis and recession

Arguably, inflation was persistently too low for full recovery

### Federal Reserve holdings of Treasury securities



Source: Matt Phillips, 2019, "The Hot Topic in Markets Right Now: 'Quantitative Tightening.'" *New York Times*, 30 January. <https://www.nytimes.com/2019/01/30/business/fed-quantitative-tightening.html>

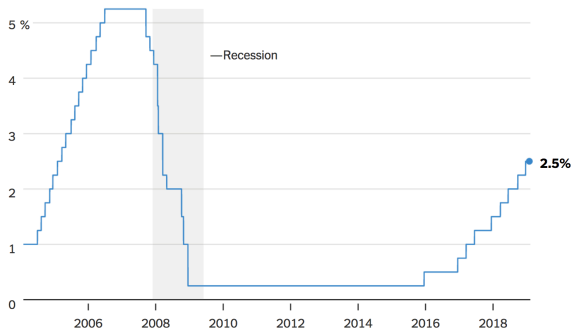
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By 2019, efforts to unwind QE (both Treasuries & MBS) had barely started, when the Fed signalled a halt to interest rate tightening

Most in the Fed believed the recovery was too fragile to handle unwinding Great Recession stimulus, even a decade later

And this was *before* the events of 2020

Fed funds rate

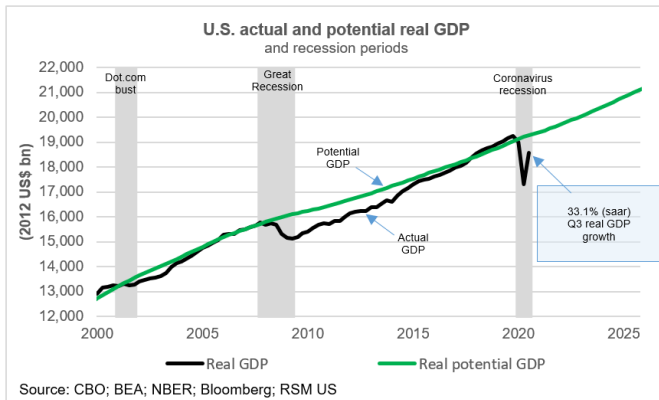


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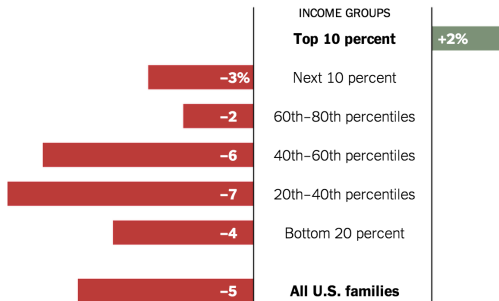
Source: Joseph Brusuelas, 2020, "Third-quarter GDP: Record growth, but closing the output gap will take years," The Real Economy Blog, 29 October, <https://realeconomy.rsmus.com/third-quarter-gdp-record-growth-but-closing-the-output-gap-will-take-years>

QE wasn't enough to produce a strong recovery in the real economy

The US gap in output – the total amount of economic activity compared to the prior trend – took a full decade to recover (and would have to recover again post-pandemic)

## Declining Incomes, But Not at the Top

Percent change in median family income, 2010-2013.



Figures are change in median pretax income in each percentile range. Adjusted for inflation.

Source: Federal Reserve

The Great Recession and the early years of the recovery magnified income inequality

Source: Steven Rattner, 2014, "Inequality, unbelievably, gets worse," *New York Times*, 16 November, <http://www.nytimes.com/2014/11/17/opinion/inequality-unbelievably-gets-worse.html>

Although inflation was very low, cost shifting from employers and state governments meant the middle class paid more for college and health care, so the “recovery” felt like a very long recession for many

FIGURE 1.2

### Change in median household income and real price of selected goods and services, 2000–2012

Median income  
for all families

-8%

Price of rents

7%

Medical care

21%

Child care

24%

Higher education

62%

Note: Percentage change in CPI price index for individual components, deflated by CPI-U-RS, from 2000–2013. Income is change in median quintile incomes from 2000–2012 deflated by CPI-U-RS.

Source: Author's calculations based on Federal Reserve Bank of St. Louis, "Economic Research" available at <http://www.research.stlouisfed.org/> (last accessed July 2014); and Bureau of the Census, "American Social and Economic Supplement" (U.S. Department of Commerce, 2000–2012), available at <http://www.census.gov/hhes/www/income/data/historical/household/>.

Source: Center for American Progress, 2014, "The middle class squeeze,"

<https://www.americanprogress.org/issues/economy/report/2014/09/24/96903/the-middle-class-squeeze/>

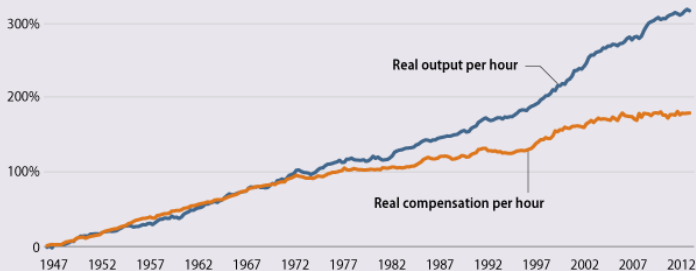
But take a longer view...

In the Golden Age, workers shared in growth equally with the rich

FIGURE 1.1

### The decoupling of employee compensation and productivity

Cumulative change in compensation and productivity per hour



Source: Bureau of Labor Statistics, "Real Output per Hour", available at <http://research.stlouisfed.org/fred2/series/OPHPBS>, (last accessed July 2014); and Bureau of Labor Statistics "Real Compensation per Hour," available at <http://research.stlouisfed.org/fred2/series/COMPRNFB> (last accessed July 2014)

Source: Center for American Progress, 2014, "The middle class squeeze,"

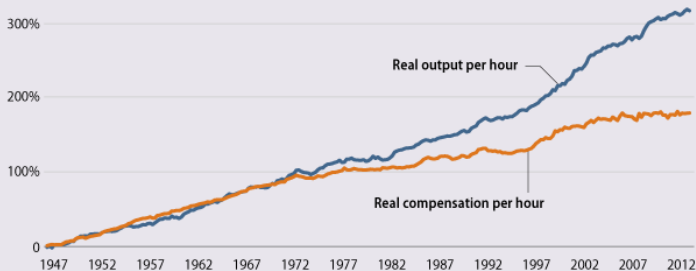
<https://www.americanprogress.org/issues/economy/report/2014/09/24/96903/the-middle-class-squeeze/>

Since the 1970s, wages have fallen behind productivity growth:  
the economy was growing, but paychecks weren't

FIGURE 1.1

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Cumulative change in compensation and productivity per hour



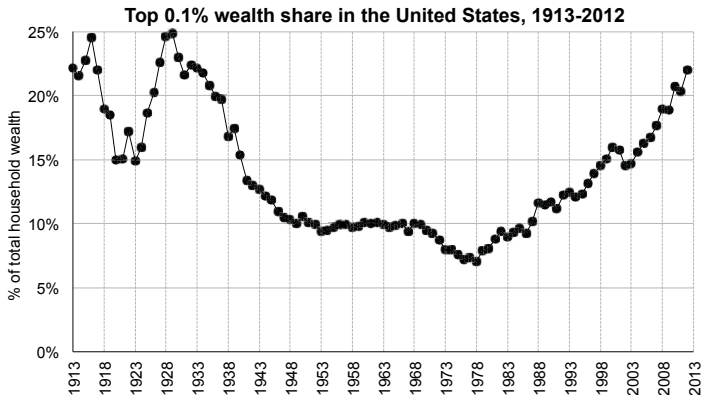
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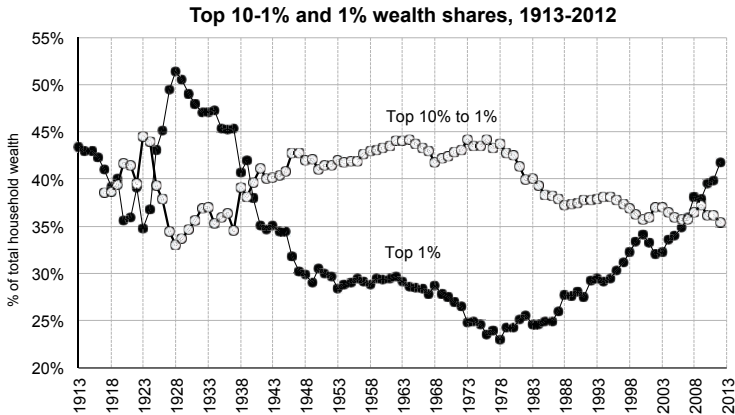
## Wealth grew more concentrated – reverting to Gilded Age patterns



This figure depicts the share of total household wealth held by the 0.1% richest families, as estimated by capitalizing income tax returns. In 2012, the top 0.1% includes about 160,000 families with net wealth above \$20.6 million. Source: Appendix Table B1.

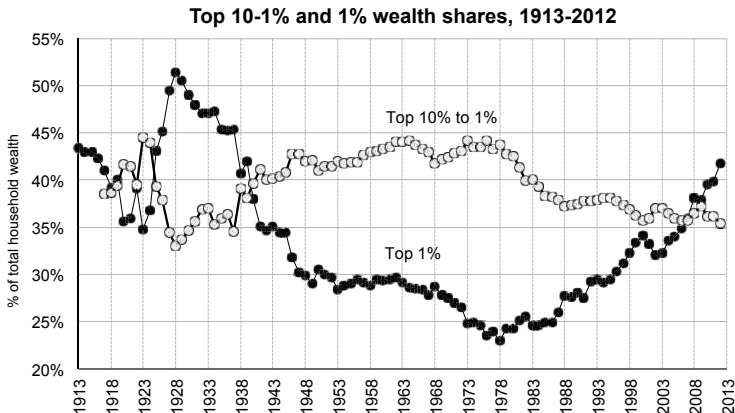
Source: Emmanuel Saez and Gabriel Zucman, 2014, "Wealth inequality in the United States since 1913: Evidence from capitalized income tax data", NBER Working Paper 20625, October, <http://www.nber.org/papers/w20625>

Even the upper echelons of the middle class were relatively wealthier in the mid-20th century



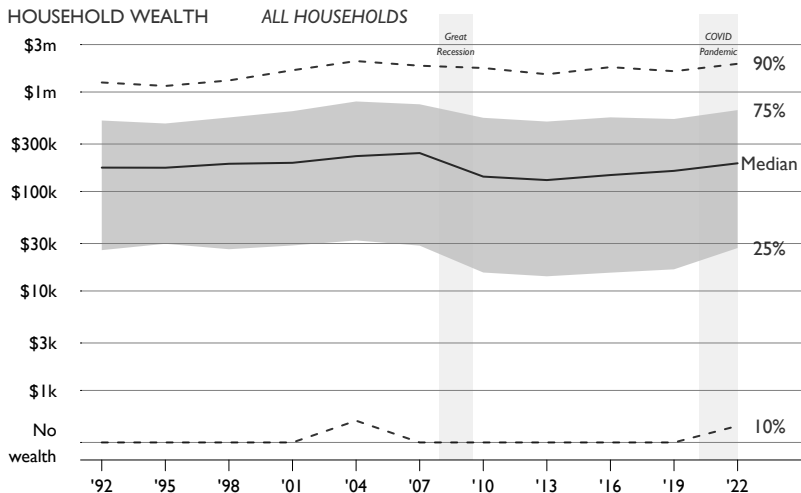
Source: Emmanuel Saez and Gabriel Zucman, 2014, "Wealth inequality in the United States since 1913: Evidence from capitalized income tax data", NBER Working Paper 20625, October, <http://www.nber.org/papers/w20625>

## Something big has changed – and it started long before the 2008 financial crisis



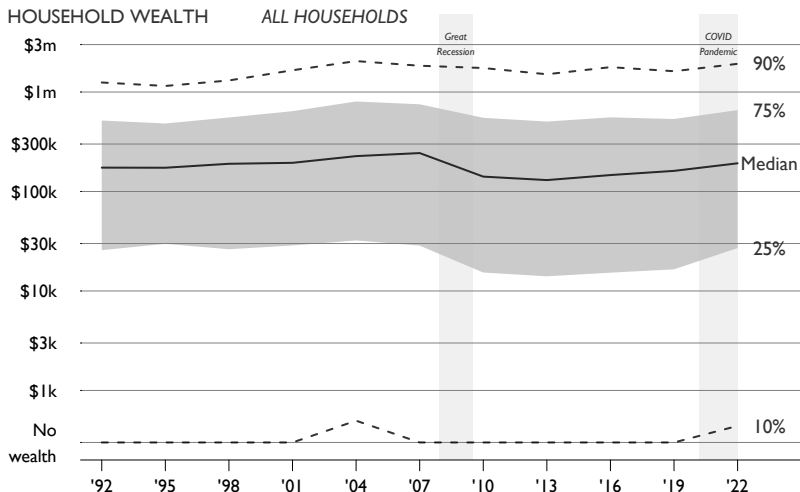
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## Let's drill into trends in wealth in the US over the last thirty years...



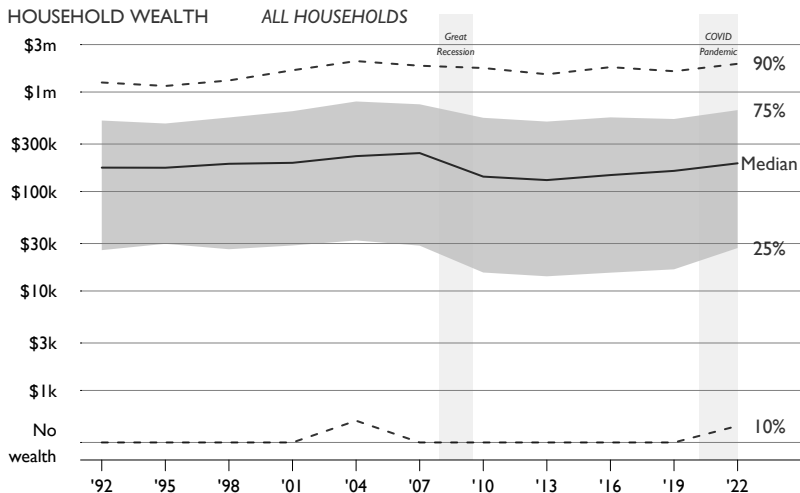
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## Why wealth matters: buffer against precarity; basis for opportunity & political power



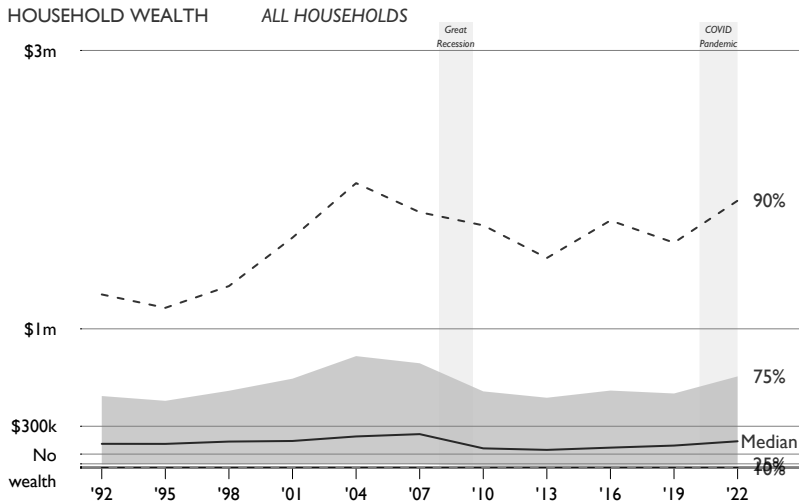
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

This plot is log-scaled, so we can discern relative changes for rich and poor alike



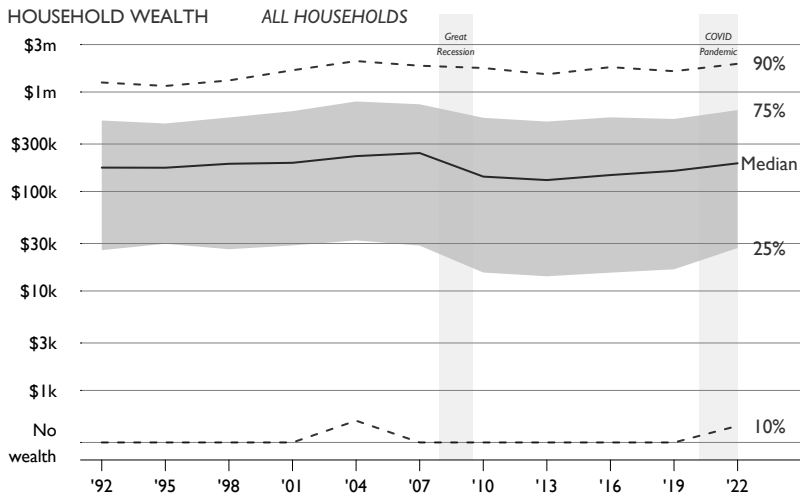
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

A linear scale reminds us where the biggest gaps are – but hides most change over time



Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

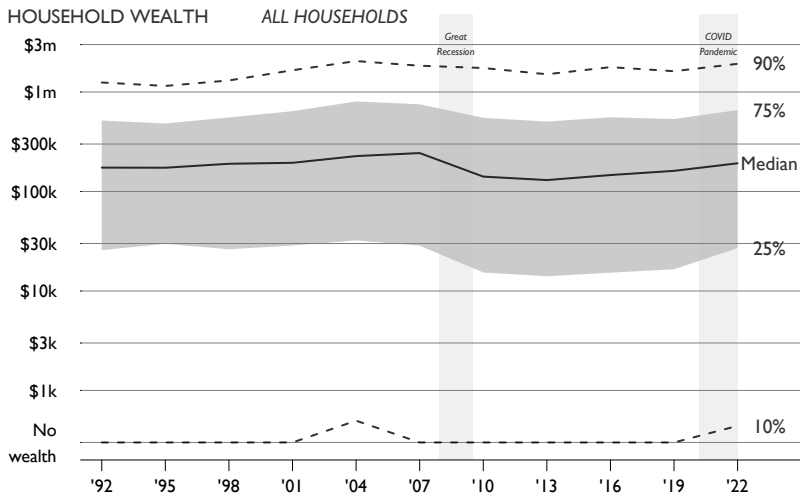
Caveat: this chart focuses on middle 80% of households due to sample size limits



Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

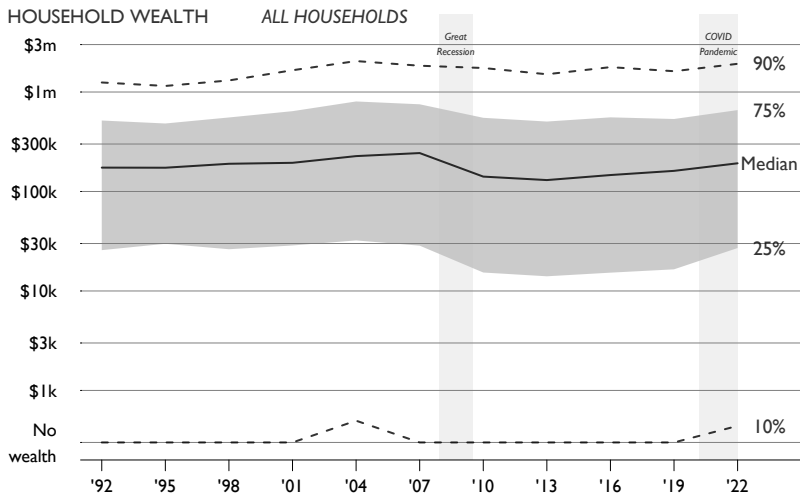


Question for later: does wealth still empower more than a handful of people?



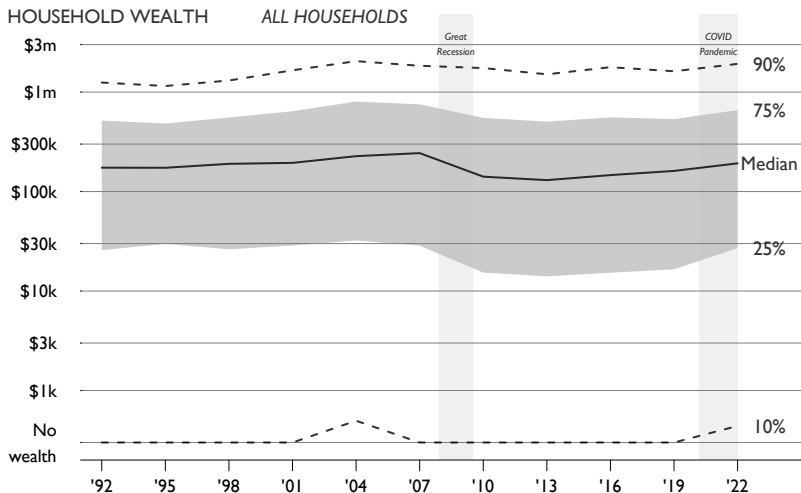
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## The bottom 90%, 90th–99th%, and top 1% each have one-third of the wealth



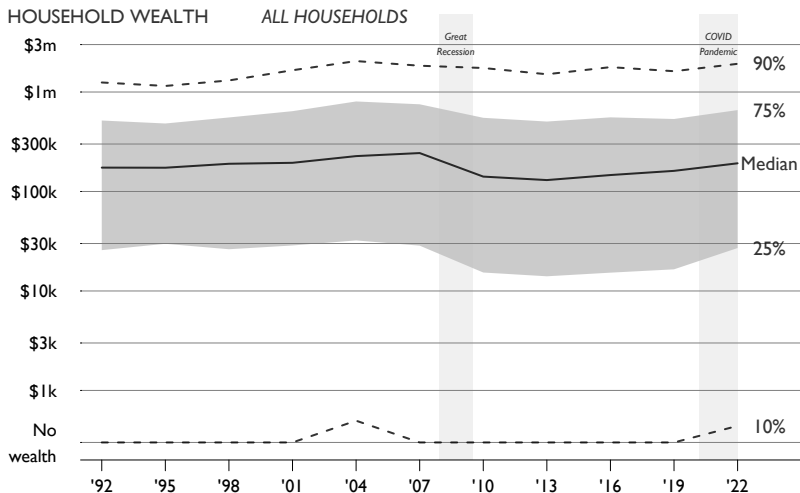
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

Top ten people have \$1.5 trillion – just 1% of wealth, but they can all meet in a room



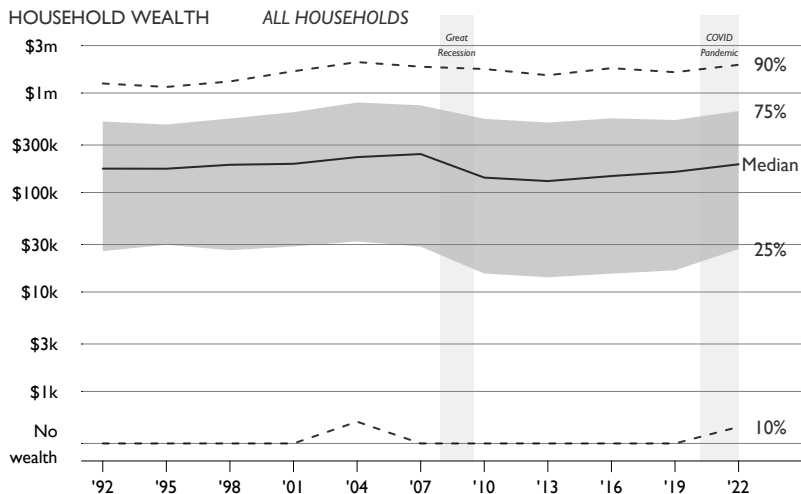
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## Even if no one below has political power, wealth still matters for precarity & opportunity



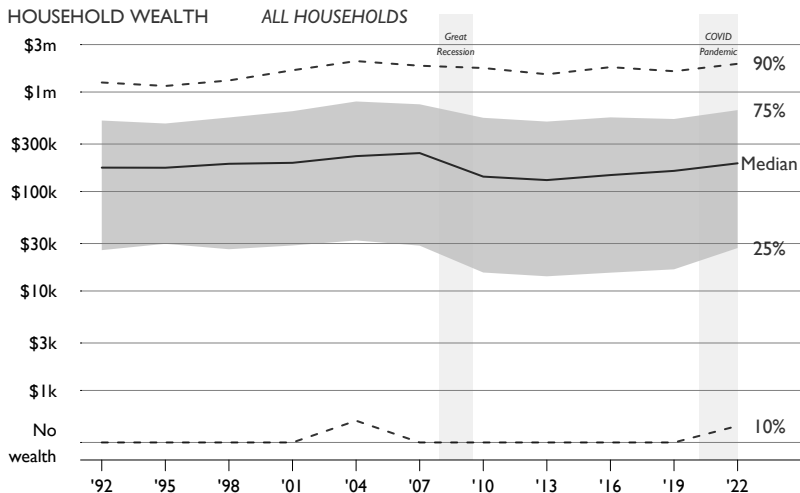
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## The Great Recession cut median household wealth in half – it only recovered halfway by 2019



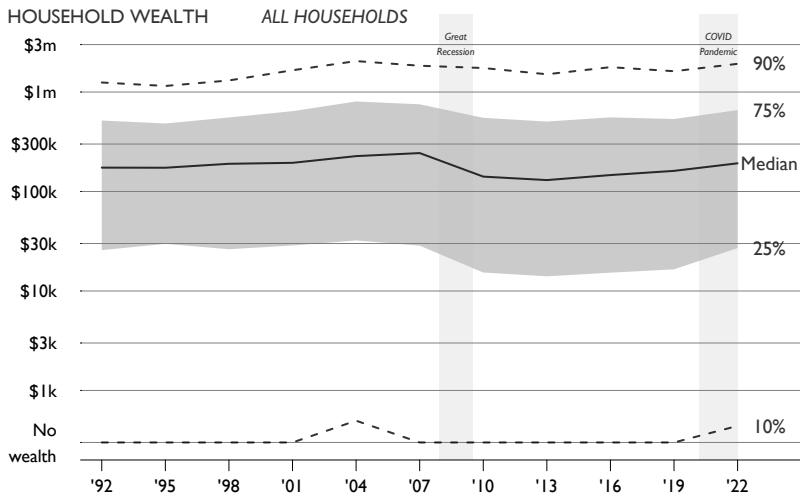
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

Then pandemic stimulus injected cash to all households – a big difference for the bottom 10%



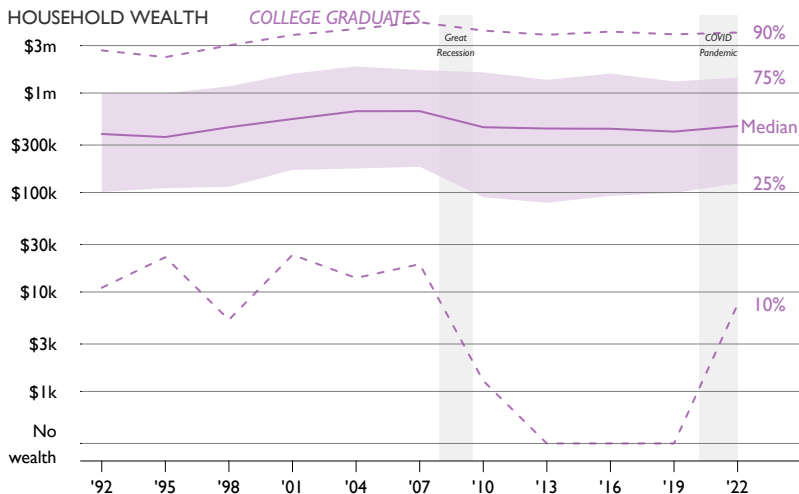
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## The stock market boom lifted those at higher levels of prior wealth



Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

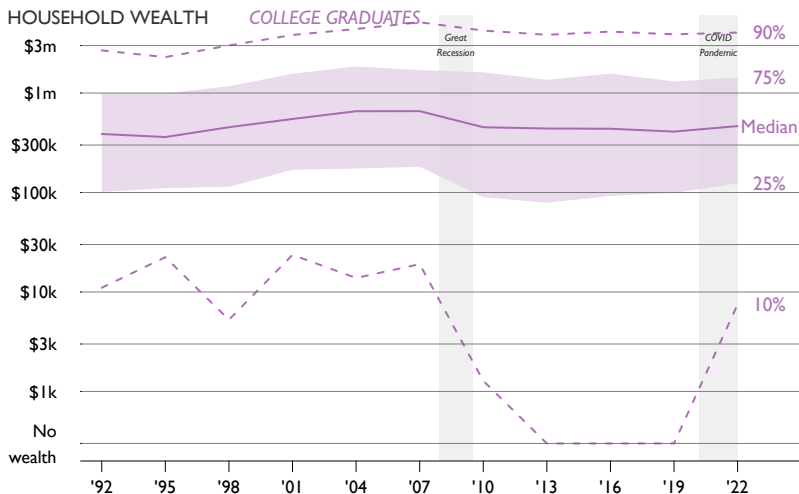
## Back in 2008, less wealthy college graduates were hit harder than wealthy ones...



Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

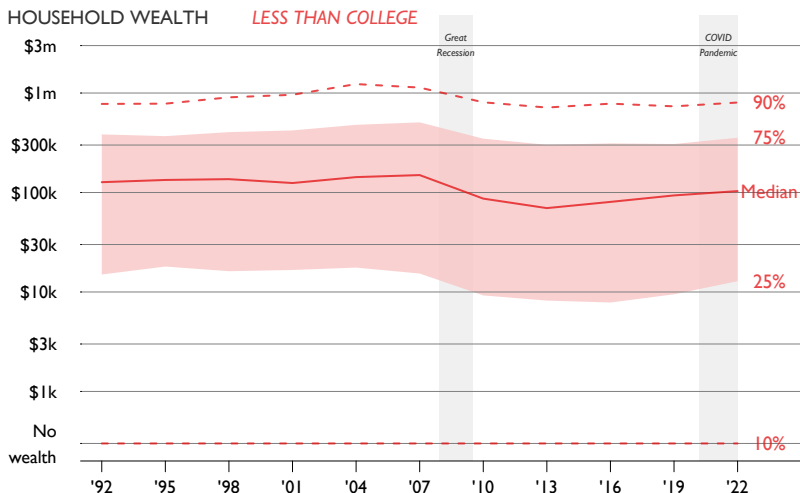


## After a lost decade for the bottom 10% of college grads, a pandemic reversal



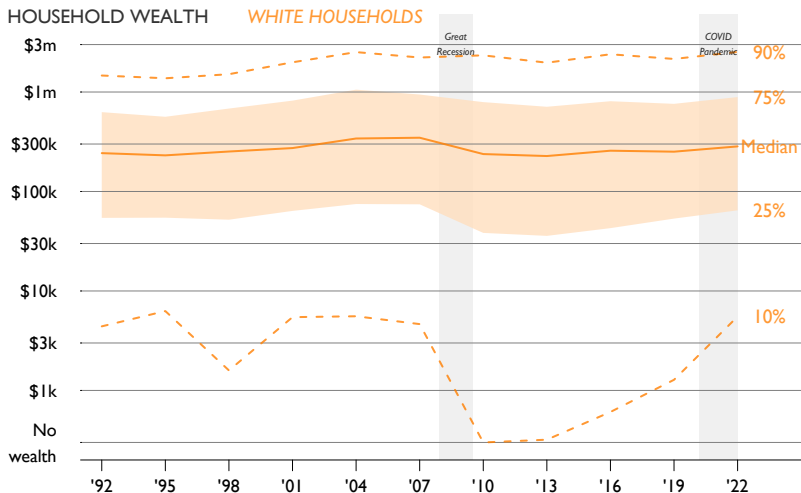
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## In 2008, Less-than-college households of all wealth levels took a huge hit – still not reversed



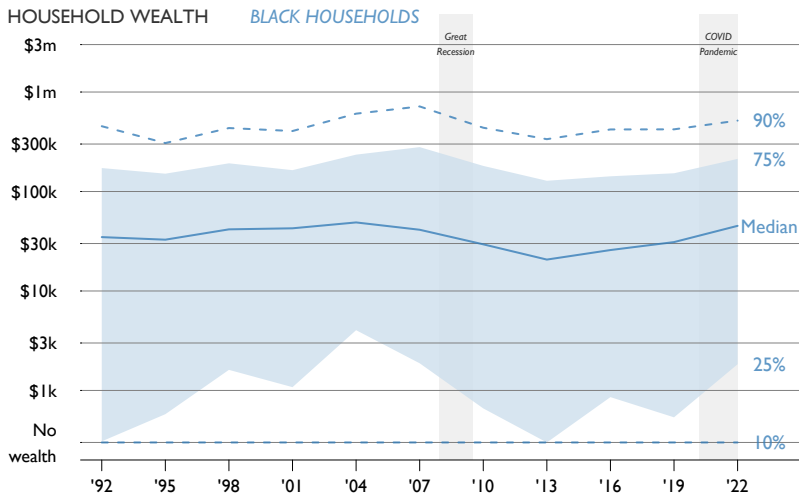
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## Racial disparities in wealth are just as stark as educational ones



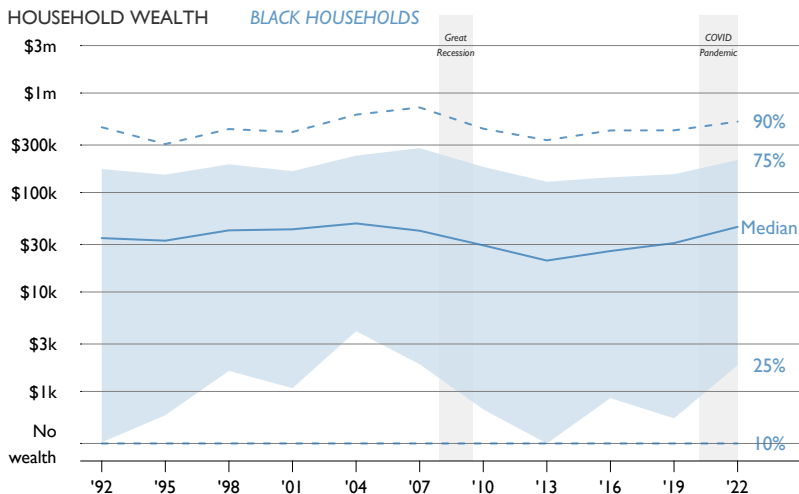
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## and black households lost a relatively larger share of wealth in the Great Recession



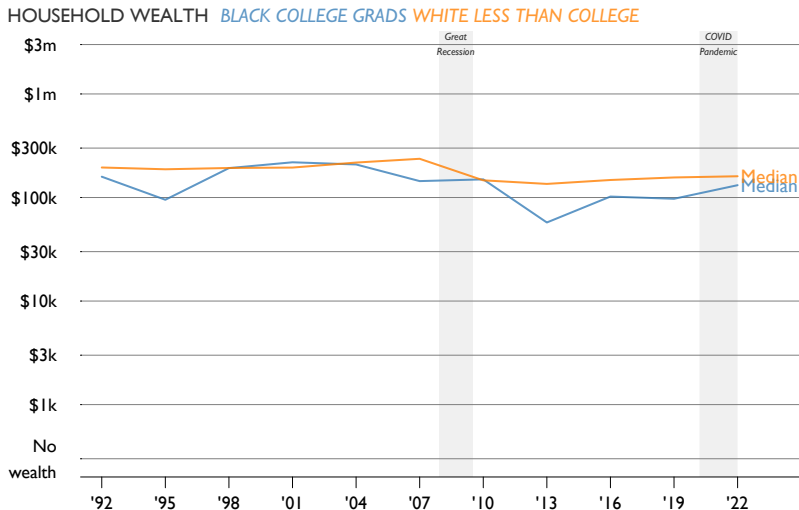
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## Black households regained ground in the pandemic – but are still as far behind as in the 1990s



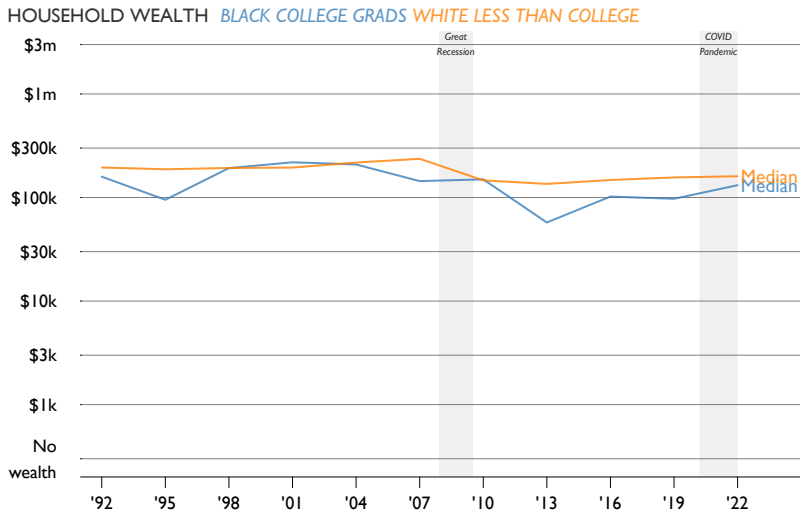
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## Consider this juxtaposition of wealth disparities by race and education



Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

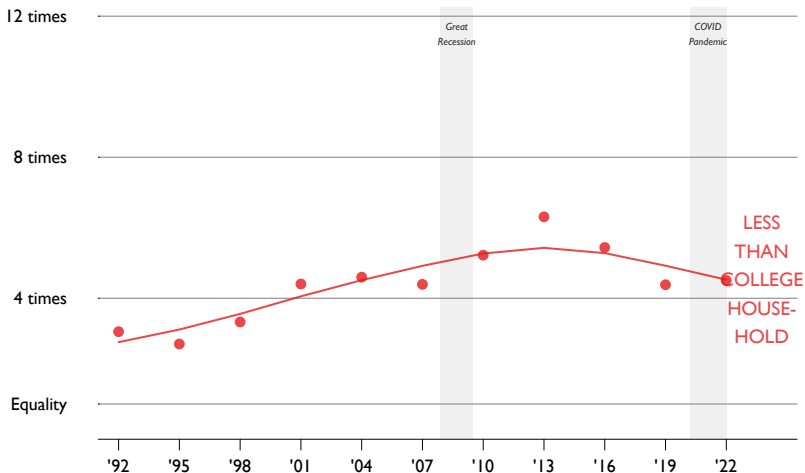
As we'll explore later in the course, wealth inequality can endure for centuries



Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

## The education wealth gap, though still huge, appears to have peaked and is declining

THE MEDIAN COLLEGE HOUSEHOLD WAS THIS MANY TIMES RICHER THAN THE MEDIAN...

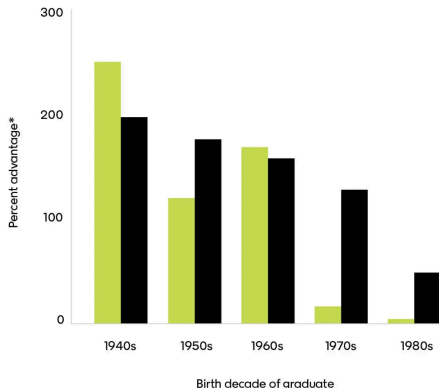


Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.



## Expected Wealth Benefit for 4-year College Graduates As Compared With High School Graduates

Black White, Non-Hispanic



\*in median family wealth for families headed by four-year college graduates over families headed by non-graduates. Source: Federal Reserve Board's Survey of Consumer Finances and calculations done by William R. Emmons, Ana H. Kent, and Lowell R. Ricketts for their paper, "Is College Still Worth It?"

Source: Paul Tough. "Americans Are Losing Faith in College. Whose Fault is That?" *New York Times Magazine*. 5 September 2023. <https://www.nytimes.com/2023/09/05/magazine/college-worth-price.html>

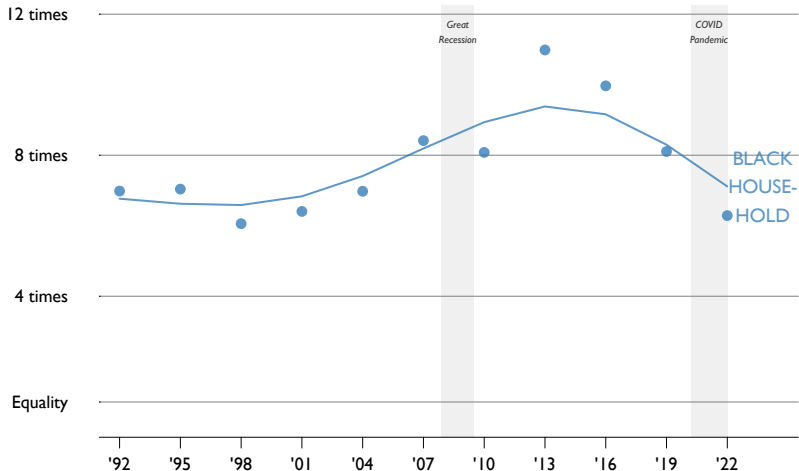
Analysis of the same data by birth decade reveals declining (but still sizable) wealth advantage for the median graduate

But those who don't finish college, or go to lower rated colleges, or who are unlucky in job market after college may not end up better off financially at all

Given the role of wealth in college admission and parental support, college is still a good deal on average, but getting riskier for those who aren't already well-off

## The black-white wealth gap exploded in the Great Recession, but is dropping fast

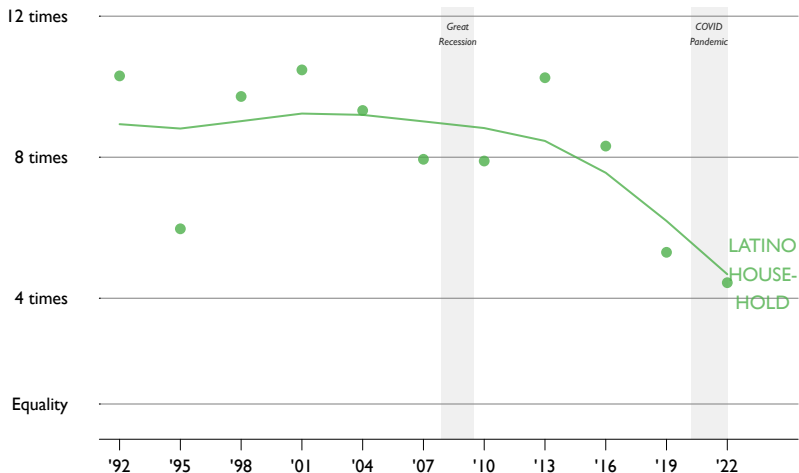
THE MEDIAN WHITE HOUSEHOLD WAS THIS MANY TIMES RICHER THAN THE MEDIAN...



Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

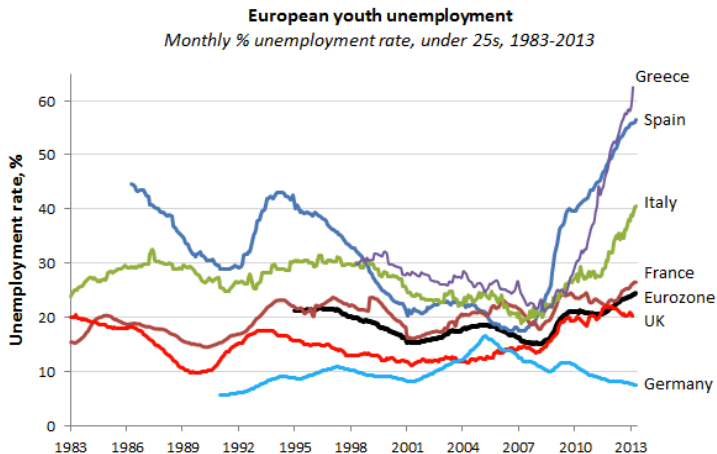
## Meanwhile, the Latino-White wealth gap continues a decade-long decline

THE MEDIAN WHITE HOUSEHOLD WAS THIS MANY TIMES RICHER THAN THE MEDIAN...



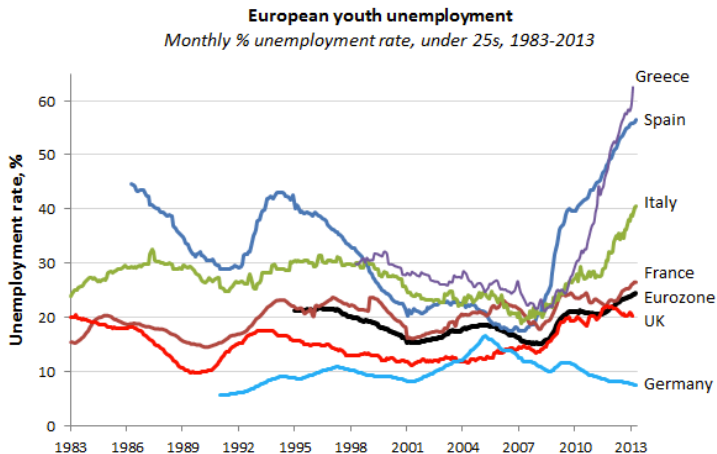
Source: My calculations from the Survey of Consumer Finances, 1992–2022. Amounts in constant 2022 dollars.

What about Europe? In the Great Recession, the US was the relatively good case. Thanks to the early 2010s crisis in the eurozone, Europe – especially in the south– stagnated



Source: James Plunkett, reprinted in *The Atlantic*, 2013. <http://www.theatlantic.com/business/archive/2013/05/europes-record-youth-unemployment-the-scariest-graph-in-the-world-just-got-scarier/276423/>

We'll investigate the eurocrisis in turn. Many of the same forces are at work, but channelled by Europe's different political institutions



Source: James Plunkett, reprinted in *The Atlantic*, 2013. <http://www.theatlantic.com/business/archive/2013/05/europes-record-youth-unemployment-the-scariest-graph-in-the-world-just-got-scarier/276423/>

# The purpose of this course

This course is an experiment, now running for a decade:  
POLS & ECON classes usually focus on theory & selected cases, not a sequence of events

But the Great Financial Crisis, the Great Recession, and Covid Pandemic  
are complex events quite unlike the recessions of the 1950s to 1990s

These events harken back to the early 20th century –  
especially the 1918 pandemic & the Great Depression –  
but occurred in world ostensibly able to draw lessons from those historical precursors

We will see how well different actors learned from history

And we will ponder what history has in store for us starting in 2025

# The purpose of this course

Understanding how the financial crisis and Great Recession happened, and what emerged from them is *complex*:

- ❶ exposes gaps in economic theory – or at least, gaps in how those theories were applied to political economy;
- ❷ shows elite economic actors (and elite economists) struggling to adapt in real time to unexpected crisis;
- ❸ created a newly vibrant debate over the relevant macroeconomic and political economic questions of the day in place of the previous consensus
- ❹ unleashed an era in which most agree that the status quo is unsatisfactory, but are sharply polarized about why, and what should be done

# The purpose of this course

This course takes us...

- first into the events of the financial crisis in the US and Europe,
- then to the bailouts, stimulus packages, and austerity plans which followed,
- considers several competing explanations for the pattern of slow, unequal growth creating a new Gilded Age in the 21st century
- explores whether the pandemic scrambled, reversed, or accelerated these trends
- finally delves into the sharp authoritarian break in the United States and its emerging economic consequences

Some questions to ponder...



# What caused the financial crisis?

Was it simply a housing bubble led by too many subprime mortgages, or were there deeper systemic problems, economically or politically?

Did the actions of the US and European governments stem the crisis?  
Make no difference? Make it worse?

What lessons did we learned? Are we prepared for another crisis should one come?

# Why was the Great Recession so long and painful?

Was it merely the typical consequence of a financial crisis?

Or was the response of policy makers unusually clumsy?

Why did so many governments turn to austerity?

If the crisis began with the US housing market,  
why was it worse in Europe, especially in countries on the periphery of the eurozone?

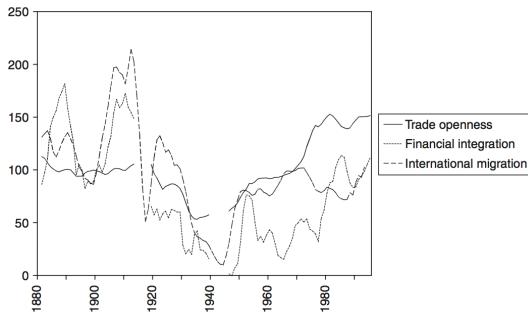
# Why didn't the economy quickly return to "normal"?

Other postwar recessions ended quickly

Has something fundamental changed in the macroeconomy or in politics that makes growth slower or incomes and wealth more unequal than in latter half of the 20th century?

If so, what?

Put another way,  
what was unusual about the Golden Age of Capitalism (1947–1973)?



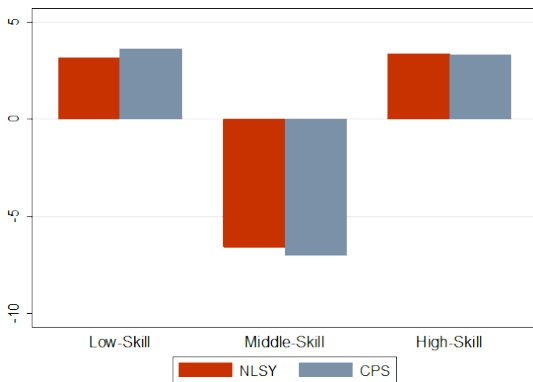
Source: Broadberry and O'Rourke, 2010, *The Cambridge Economic History of Modern Europe: Volume 2, 1870 to the Present*. Cambridge University Press.

## Globalization?

International trade (and financial flows and migration) were low.

By the turn of the 21st century, these flows had returned to 19th century levels

Populist backlash subsequently emerged as a powerful political force in the US and Europe



Source: Michael Boehm, 2014, "Job polarisation and the decline of middle-class workers' wages," VOXEU, 08 February, <http://www.voxeu.org/article/job-polarisation-and-decline-middle-class-workers-wages>

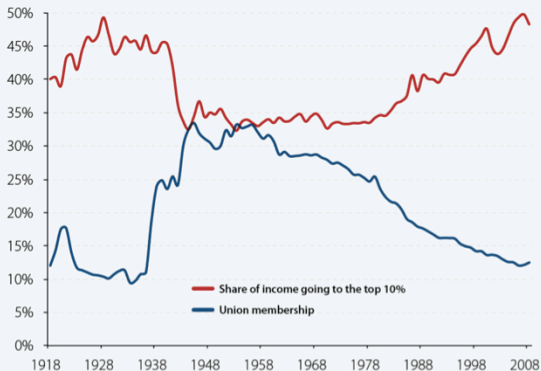
## Technological Change?

In the mid-20th century, skilled labor and skilled jobs were plentiful and well-paid

Since then, computer-driven automation has decimated middle skill jobs, leading to a hollowing out of the wage structure

(Does "AI" portend another turn of this ratchet?)

### Unions and shared prosperity



Source: Author's analysis of *Historical Statistics of the United States*, [unionstats.com](http://unionstats.com), Piketty and Saez 2003, and *The World Top Incomes Database*



### Labor unions?

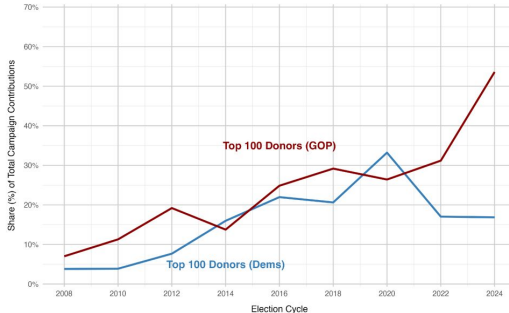
By the middle of the twentieth century, much of the workforce in the US and Europe was unionized, coinciding with the lowest levels of income inequality of the industrial age

Unions sharply decline in the US, though less so in Europe

Source: Felix Salmon, Economic Policy Institute.

### Share of Total Contributions From Top 100 Donors By Party

Republicans have raised over 50% of their total funds from just 100 donors in 2024.



Source: Database on Ideology, Money in Politics, and Elections (DIME).  
Note: Includes contributions to candidates and party affiliated/aligned PACs and Super-PACs.

Source: Adam Bonica.

<https://bsky.app/profile/adambonica.bsky.social/post/3lggywwosnk2u>

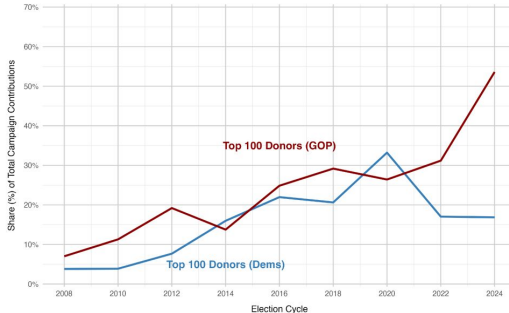
## The Return of Capital?

Perhaps the change is as simple as the rising political power of the affluent which might have led to policy changes reinforcing inequality and stagnation

Even if capital concentration doesn't explain past inequality, an emerging oligarchy may control the future

### Share of Total Contributions From Top 100 Donors By Party

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Source: Database on Ideology, Money in Politics, and Elections (DIME).  
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Source: Adam Bonica.

<https://bsky.app/profile/adambonica.bsky.social/post/3lgywwosnk2u>

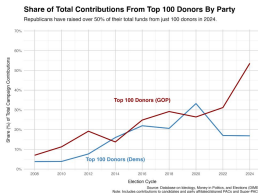
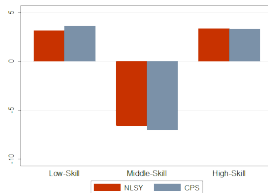
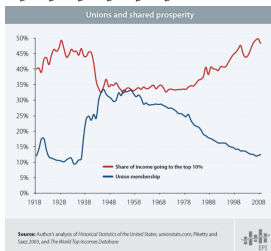
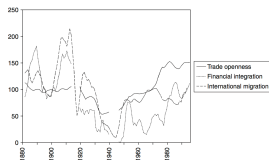
## The Return of Capital?

Just 100 donors accounted more than half of all campaign finance in 2025 to the party currently in control

This is *new*: in the postwar era, political power has never been so concentrated by wealth

(What would it take to change this?)





There are many competing explanations for rising inequality, and they're often tied to political and partisan debates

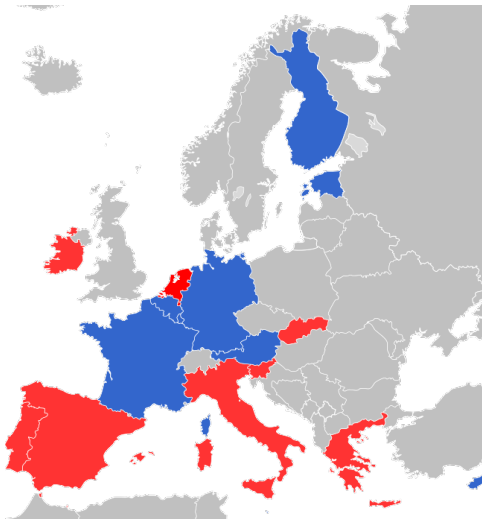
Simple correlations won't be enough to settle these questions; we will need to go deeper

# But what is normal?

Perhaps the Golden Age of Capitalism –  
and the brief island of equality and growth it created –  
are the real anomaly

The postwar boom coincided with the development of modern social science:  
perhaps we too often take it as the normal state

What if the Golden Age is a hard-to-repeat oddity  
brought about by the convergence of the traumatic events of the early 20th century,  
and a particular moment in economic development?



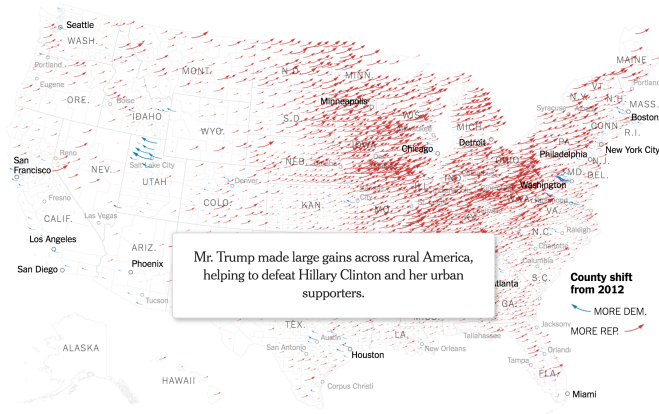
More than a decade ago, the Great Recession fed the rise of political instability and radicalism were clear across Europe

Right-wing populism has been on the rise ever since

[Red – Premature change of government due to eurocrisis; Blue – other eurozone countries]

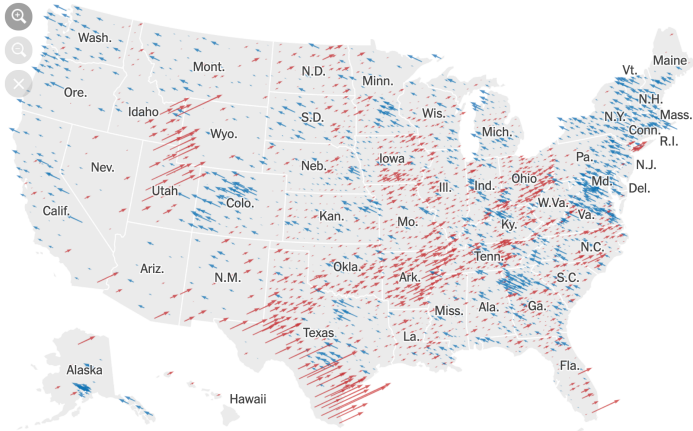
Source: "European Debt Crisis," Wikipedia,  
[http://en.wikipedia.org/wiki/European\\_debt\\_crisis](http://en.wikipedia.org/wiki/European_debt_crisis)

In the UK & US, the populist backlash started in 2016 with Brexit & Trump's 1st electoral victory



Source: "How Trump Reshaped the Election Map," *New York Times*, 9 November 2016, <https://www.nytimes.com/interactive/2016/11/08/us/elections/how-trump-pushed-the-election-map-to-the-right.html>

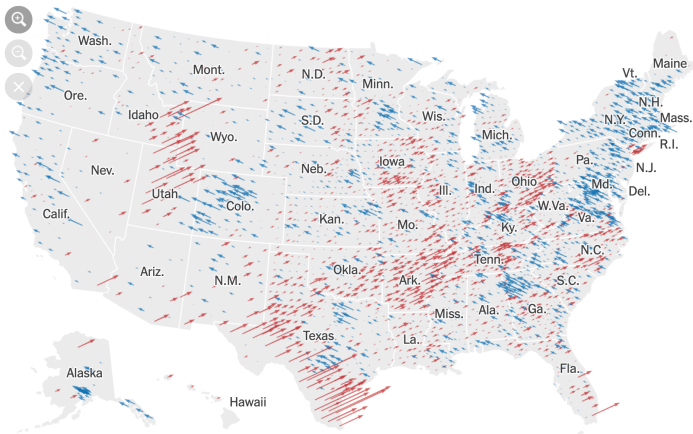
The 2020 election in the US (and 2024 in the UK) pushed the populist right back...for a time



Source: "Presidential Election Results: Biden Wins," *New York Times*,

<https://www.nytimes.com/interactive/2020/11/03/us/elections/results-president.html>

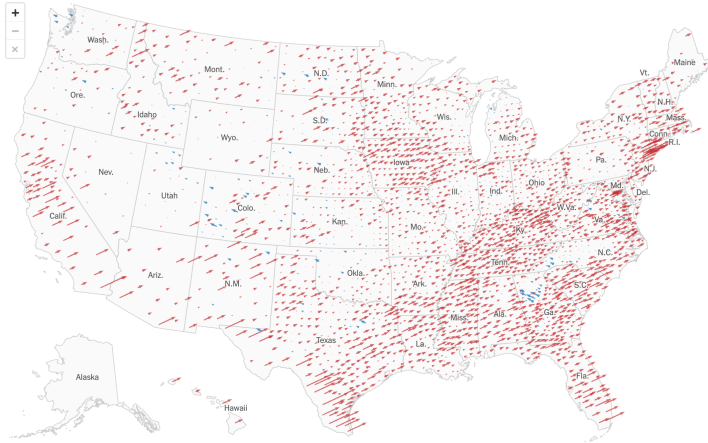
## Did the pandemic change everything? Or just pause a long-run political realignment?



Source: "Presidential Election Results: Biden Wins," *New York Times*,

<https://www.nytimes.com/interactive/2020/11/03/us/elections/results-president.html>

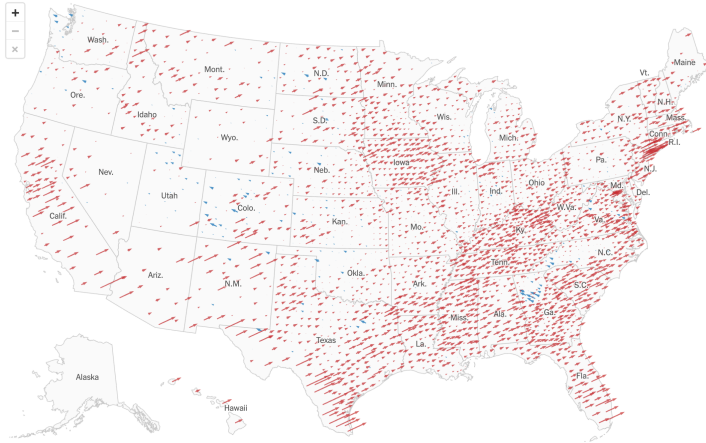
## The question everyone is asking: what explains the 2024 presidential election?



Source: "Election Results Show a Red Shift Across the U.S. in 2024," *New York Times*,

<https://www.nytimes.com/interactive/2024/11/06/us/politics/presidential-election-2024-red-shift.html>

**Caveat: in a close election, any counterfactual might plausibly have flipped the outcome**

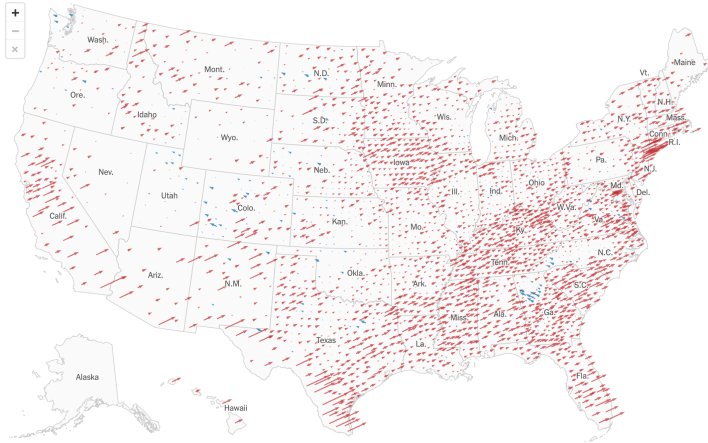


**Source: "Election Results Show a Red Shift Across the U.S. in 2024," *New York Times*,**

<https://www.nytimes.com/interactive/2024/11/06/us/politics/presidential-election-2024-red-shift.html>



But most swing voters prioritize the economy – let's look back on the pandemic & its aftermath



Source: "Election Results Show a Red Shift Across the U.S. in 2024," *New York Times*,

<https://www.nytimes.com/interactive/2024/11/06/us/politics/presidential-election-2024-red-shift.html>

# Can you shut the economy down and turn it on again?

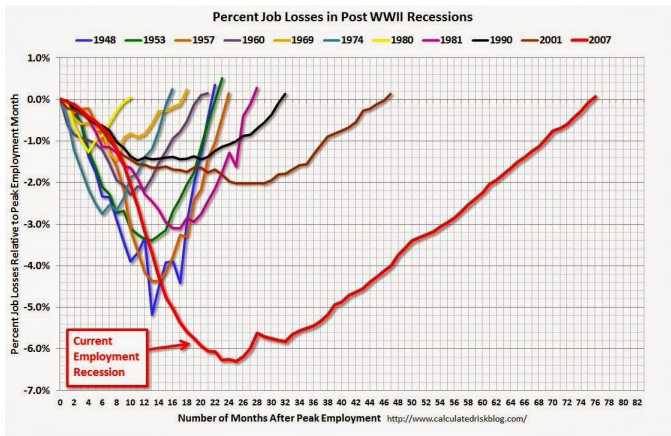
The Covid Pandemic is a massive tragedy misremembered through a miasma of misinformation

Excess deaths attributable to the pandemic by the end of 2021 total 18.2 million globally and 1.13 million in the US alone (COVID-19 Excess Mortality Collaborators, *Lancet* 2022)

Deaths would have been vastly worse without mandated and voluntary social distancing in the pre-vaccine era

But how well did the United States manage the economic costs of those life-saving policies and behaviors?

What happens when you decide to turn much of the economy “off” for a few months, then turn it on again?



Recall this graphic  
– famously called  
the “scariest chart  
ever” back in  
2009

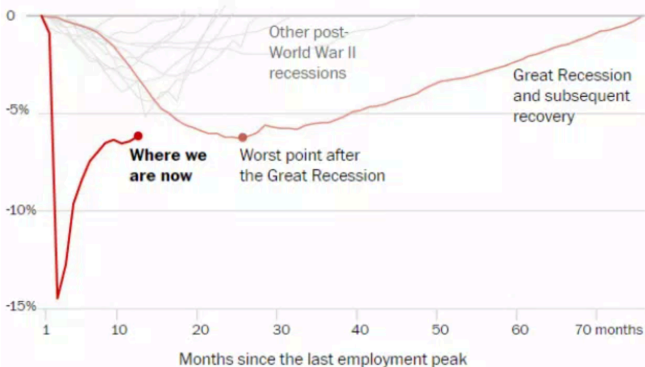
How do pandemic  
job losses  
compare?

Source: Joe Weisenthal, 2014, “The Scariest Chart Ever Is Dead,” *Business Insider*, June

6. <http://www.businessinsider.com/the-scariest-chart-ever-is-dead-2014-6>

## How this recession compares to previous ones

Percent change in employment since most recent peak.



Note: Because employment is a lagging indicator, the dates for these payroll employment trends are not exactly synchronized with the National Bureau of Economic Research's official business cycle dates.

Sources: Bureau of Labor Statistics, via Haver Analytics

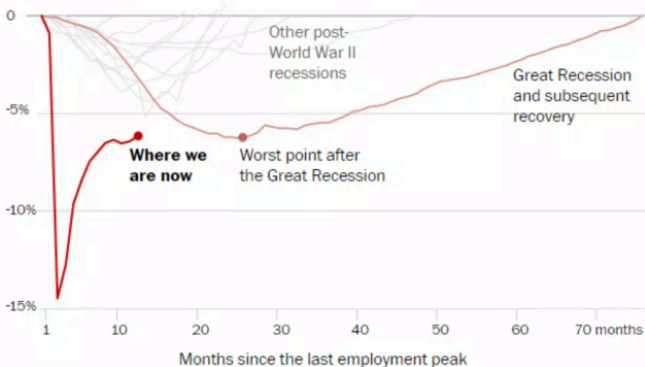
THE WASHINGTON POST

The Pandemic Recession was simply unprecedented:

Shutting down much of the global economy led to far bigger and quicker unemployment loss than past recessions

## How this recession compares to previous ones

Percent change in employment since most recent peak.

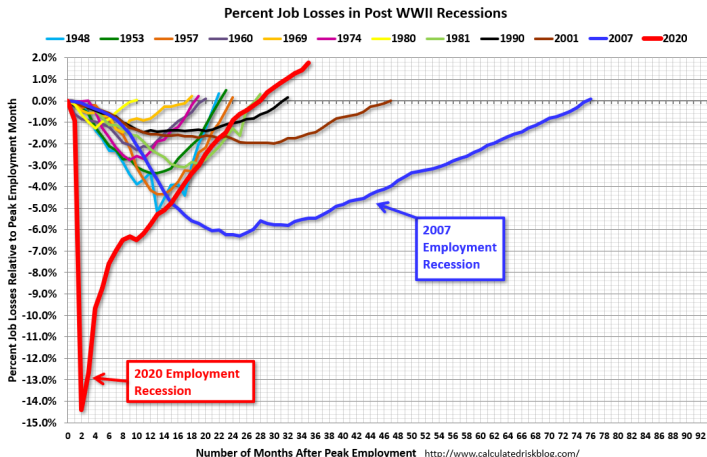


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THE WASHINGTON POST

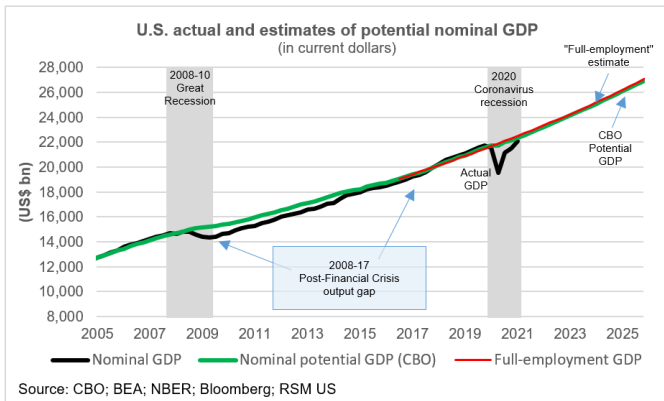
For more than a year, every weekly US unemployment claims exceeded the worst week of the Great Recession



Source: [calculatedriskblog.com](http://www.calculatedriskblog.com)

But massive stimulus spending helped spur a swift recovery,  
and industry pivoted rapidly to the changing spending habits of stay-at-home publics

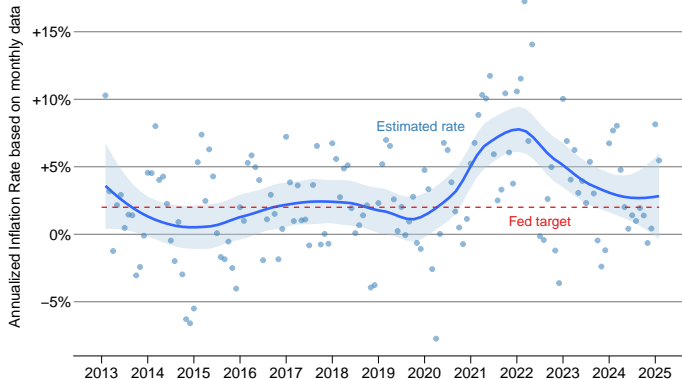
In less than 2.5 years, unemployment fell below pre-pandemic levels,  
as the US built a (very temporary) extensive, European-style welfare state



Source: Joseph Brusuelas, 2021, "Output gap to close in current quarter, an extraordinary achievement," The Real Economy Blog, 29 April, <https://realeconomy.rsmus.com/chart-of-the-day-output-gap-to-close-in-current-quarter-an-extraordinary-achievement/>

Unlimited stimulus worked in 2020 where tepid stimulus failed in 2008

The output gap – which had set postwar records in the second quarter of 2020 – closed in just one year

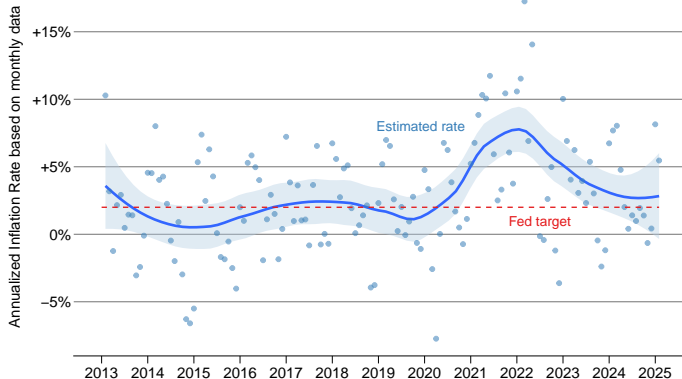


Source: My calculations from Bureau of Economic Analysis data through February 2025 (March 2025 release).  
Curve is a loess fit with bandwidth of 0.4; shaded region is a 95% confidence interval.

Inflation followed, mostly through supply chain disruptions (just-in-time efficiency isn't robust)

In retrospect, keeping aggregate demand from falling during a massive reorganization of supply chains and goods demanded was bound to lead to higher prices





Source: My calculations from Bureau of Economic Analysis data through February 2025 (March 2025 release).  
 Curve is a loess fit with bandwidth of 0.4; shaded region is a 95% confidence interval.

Has inflation been tamed? Data from 2023 onwards says yes

But visible specific high prices (especially for housing & some food items)  
 caused by global shocks like bird flu & the invasion of Ukraine led to persistent frustration



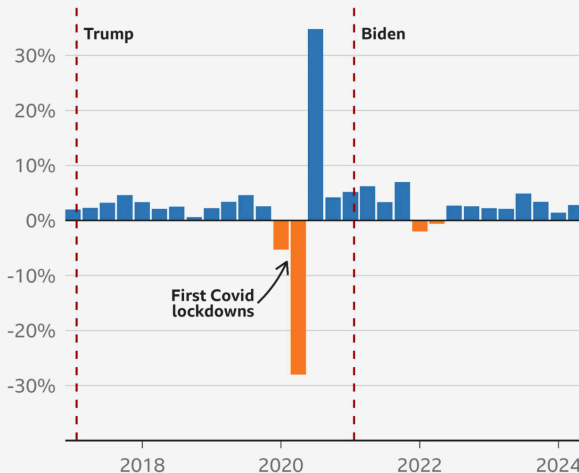
Source: "Images from Jan. 6 depict a Capitol under attack," *Washington Post* December 2021,  
<https://www.washingtonpost.com/photography/interactive/2021/january-6-photos>

Trump lost re-election decisively in 2020, attempted an autocoup, and failed... for a time

Biden tried to turn the page...

## US economic growth

GDP, % change on previous quarter



Note: Seasonally adjusted annual rate to account for seasonal variation

Source: U.S. Bureau of Economic Analysis

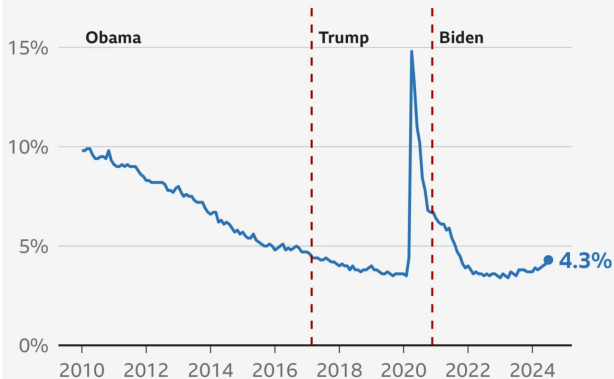
B B C

Overall, economists widely agree that the Biden years reflect that rarest of macroeconomic unicorns: a soft landing

For the most part, and certainly after 2022, real economic growth was similar to the Trump years

## Unemployment rate since 2010

Percentage of US labour force not in work



Source: US Bureau of Labor Statistics

BBC

Whereas it took almost a decade to get unemployment back below 5% after the Great Recession, the Biden administration generally presided over unemployment in the 4–5% range

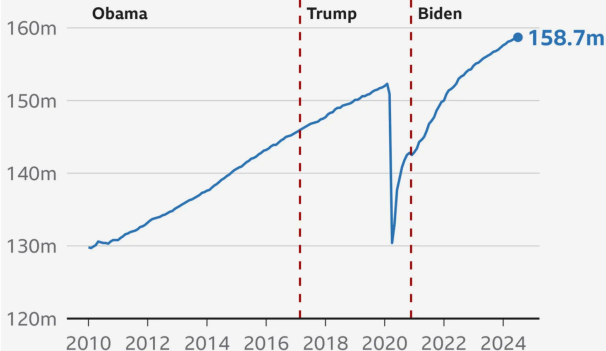
By any metric, this is historically low unemployment

Source: Jake Horton. "Is US economy better or worse now than under Trump?"

BBC. 2 September 2024. <https://www.bbc.com/news/articles/c8x15vnlzpwo>

## US employment

All employees, total non-farm payrolls



Source: US Bureau of Labor Statistics

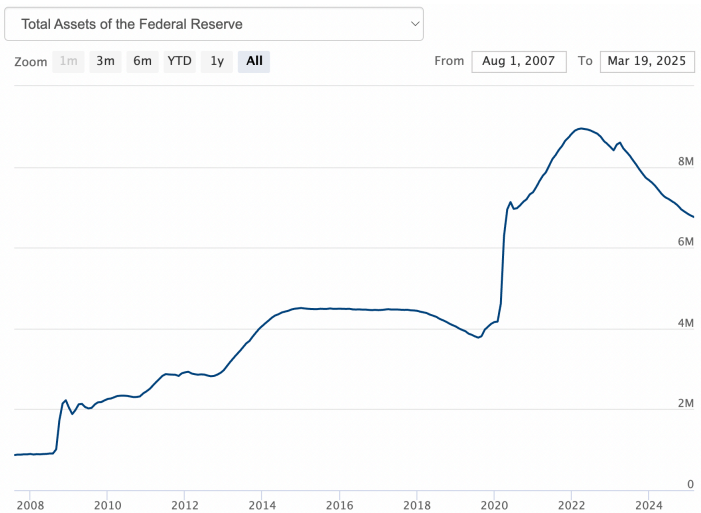
BBC

Nor was unemployment artificially low due to people leaving the workforce

Instead, workers who left during the pandemic steadily re-entered without pushing up unemployment

Source: Jake Horton. "Is US economy better or worse now than under Trump?"

BBC. 2 September 2024. <https://www.bbc.com/news/articles/c8x15vnlzpwo>

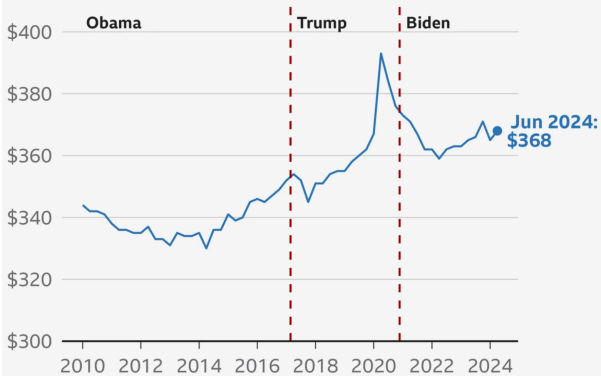


Source: Federal Reserve, March 2025.

Side note: Remember the Fed's huge pool as assets built during quantitative easing? Under Biden, the Fed even began to sharply reduce its holdings, though they still sit far above even pre-pandemic levels

## US wages

Average weekly earnings, adjusted for inflation



Source: US Bureau of Labor Statistics

BBC

Jobs were up, growth was up – but were people getting paid?

Through 2014, the Obama recovery was often slighted for bring jobs back at lower real wages, creating a new sense of precarity

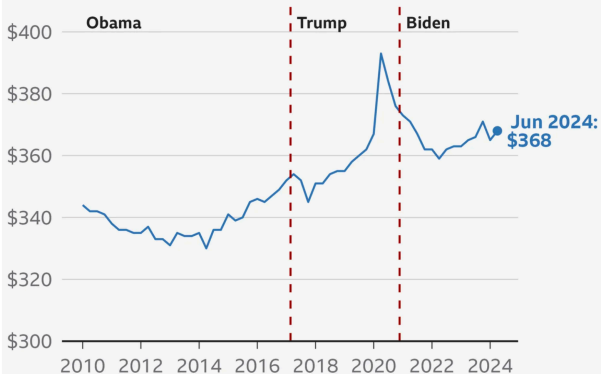
This trend reversed in the final Obama years & continued under Trump

Source: Jake Horton. "Is US economy better or worse now than under Trump?"

BBC. 2 September 2024. <https://www.bbc.com/news/articles/c8x15vnlzpwo>

## US wages

Average weekly earnings, adjusted for inflation



Source: US Bureau of Labor Statistics



After spiking in the early pandemic, real wages resumed a (gentler) rise despite inflation

But the pattern of rising prices hit some people much harder than others – housing in particular has remained expensive, frustrating the young

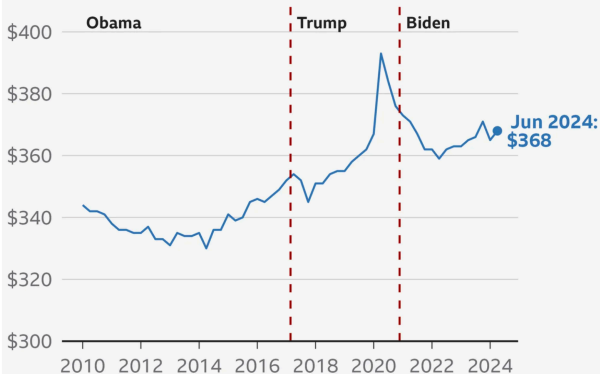
Source: Jake Horton. "Is US economy better or worse now than under Trump?"

BBC. 2 September 2024. <https://www.bbc.com/news/articles/c8x15vnlzpwo>



## US wages

Average weekly earnings, adjusted for inflation



Source: US Bureau of Labor Statistics

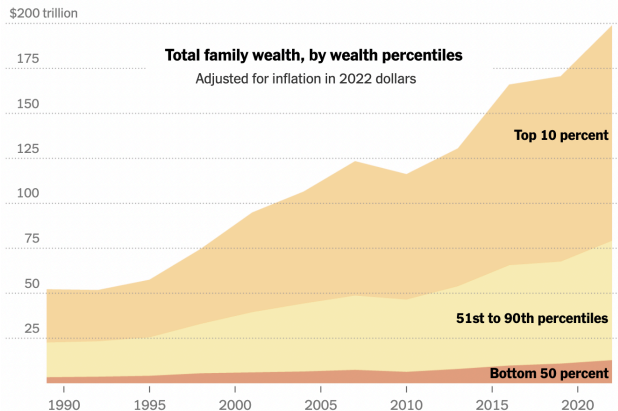


With the rapid rollback of pandemic economic supports, even slowly rising real wages felt inadequate, especially given the (illusory) gap between nominal and real wages

And though most workers gained more in wages than inflation took, unlucky workers with stagnant nominal wages faced steep real declines

Source: Jake Horton. "Is US economy better or worse now than under Trump?"

BBC. 2 September 2024. <https://www.bbc.com/news/articles/c8x15vnlzpwo>

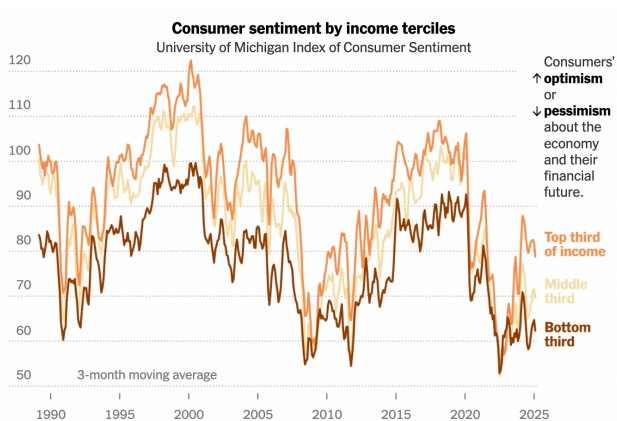


Note: Data includes families' projected Social Security retirement and disability benefits. • Source: Congressional Budget Office • By The New York Times

And though wealth has been broadly ticking upwards relative to the 2010s, the share of wealth held by the top 10% – and especially the top 1% – has skyrocketed to 69%

Moreover, most people can't touch their wealth gains, which are trapped in houses they can't afford to sell, and retirement accounts they can't yet tap

Source: Talmon Joseph Smith. "America Has Never Been Wealthier. Here's Why It Doesn't Feel That Way." *New York Times* 31 March 2025. <https://www.nytimes.com/2025/03/31/business/economy/wealth-cash-inequality.html>



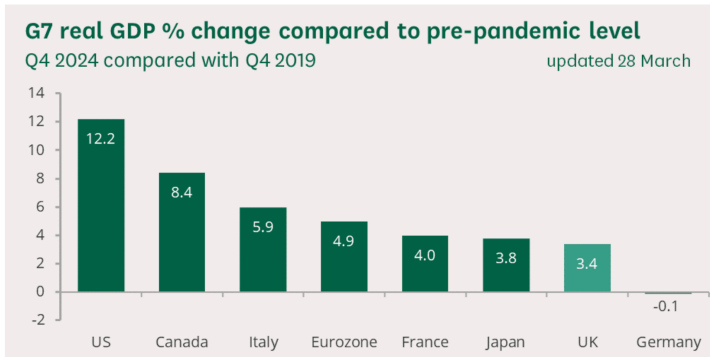
Source: University of Michigan • By The New York Times

Source: Talmon Joseph Smith. "America Has Never Been Wealthier. Here's Why It Doesn't Feel That Way." *New York Times* 31 March 2025. <https://www.nytimes.com/2025/03/31/business/economy/wealth-cash-inequality.html>

Unsurprisingly, the relatively wealthy are feeling better about the economy than lower income groups

But everyone is more pessimistic than in the 2010s, despite similar economic performance overall

Everyone is dissatisfied – but is the US the victim of poor economic management, or simply an era of hard tradeoffs?



Source: Daniel Harari. "GDP international comparisons: Economic indicators." *House of Commons Library: Research Briefing*. 28 March 2025. <https://commonslibrary.parliament.uk/research-briefings/sn02784/>

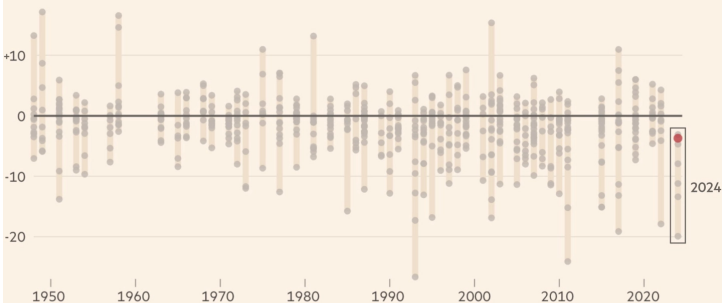
Other rich countries looked with envy on the American post-pandemic growth machine

Unbeknownst to most Americans, the US economy was literally the envy of the world, growing more than twice as fast as Europe from 2020 through 2024

Every governing party facing election in a developed country this year lost vote share, the first time this has ever happened

Rise/fall in vote share for governing parties in national elections (% pts), by year

● Individual election ● US 2024



Excludes years where fewer than five countries had elections

FT graphic: John Burn-Murdoch / @jburnmurdoch

Sources: [ParlGov](https://www.parl.gov/), FT research

©FT

Source: John Burn-Murdoch. "Democrats join 2024's graveyard of incumbents" *Financial Times*. 6 November 2024.

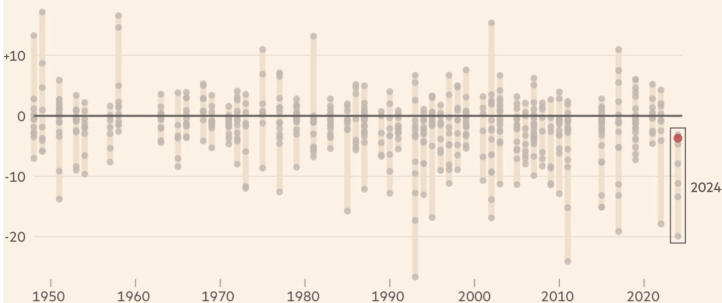
<https://www.ft.com/content/e8ac09ea-c300-4249-af7d-109003afb893>.

Across the world, incumbent governments fell,  
and high global inflation was the most likely culprit

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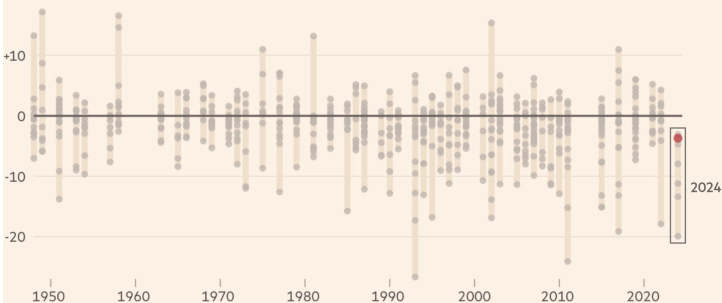
<https://www.ft.com/content/e8ac09ea-c300-4249-af7d-109003afb893>.

From an economic standpoint, this was utter irrationality –  
like blaming the government for the rain

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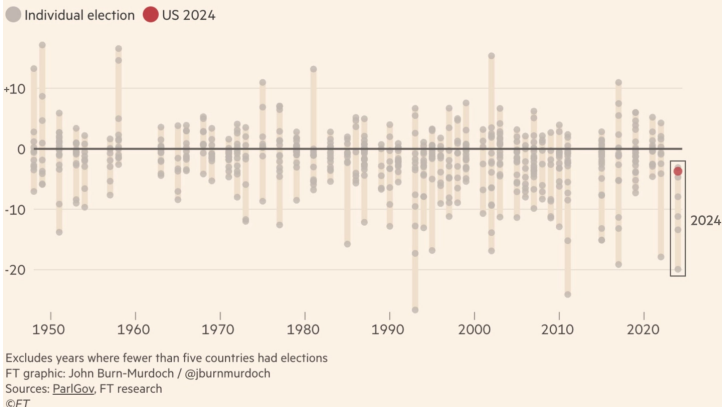
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<https://www.ft.com/content/e8ac09ea-c300-4249-af7d-109003afb893>.

Post-pandemic inflation was a global supply-chain phenomenon no gov't could stop  
But this badly understood by the public, who seldom understand inflation well

Every governing party facing election in a developed country this year lost vote share, the first time this has ever happened

Rise/fall in vote share for governing parties in national elections (% pts), by year



Source: John Burn-Murdoch. "Democrats join 2024's graveyard of incumbents" *Financial Times*. 6 November 2024.

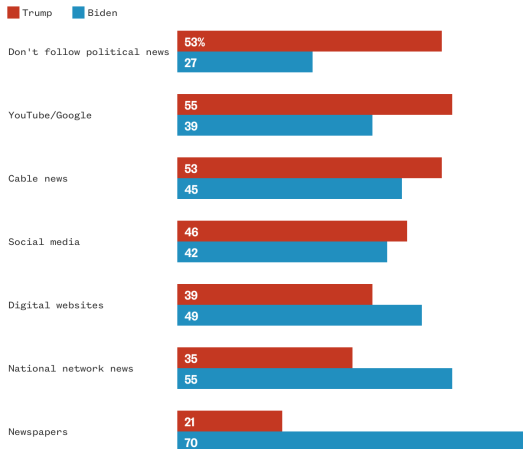
<https://www.ft.com/content/e8ac09ea-c300-4249-af7d-109003afb893>.

The relatively good performance of the US was only enough to make the US elections closer than elsewhere – but US incumbents still fell



## Presidential preference varies widely by news consumption

While Biden is the candidate of conventional news consumers, Trump fares best with those who don't follow political news.



**Notes:** Data from a head-to-head ballot test between Trump and Biden.

**Source:** The poll was conducted April 12-16 and surveyed 1,000 registered voters nationally. The margin of error is plus or minus 3.1 percentage points.

2024 US election one of the closest ever – everything mattered

Pick your issue – race, gender, immigration, crime – and it is possible to imagine changing the outcome

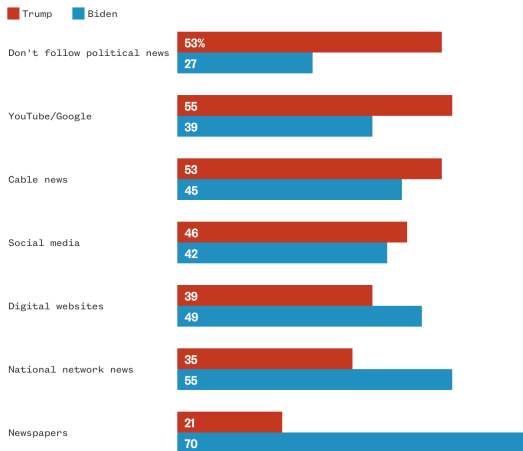
But even though it was largely over, inflation was voters' top issue, and had arguably the largest impact on the partisan swing from 2020

Source: Ben Kamisar. "Poll: Biden and Trump supporters sharply divided by the media they consume." *NBC News* 29 April 2024. [https://www.nbcnews.com/politics/2024-election/](https://www.nbcnews.com/politics/2024-election/poll-biden-trump-supporters-sharply-divided)

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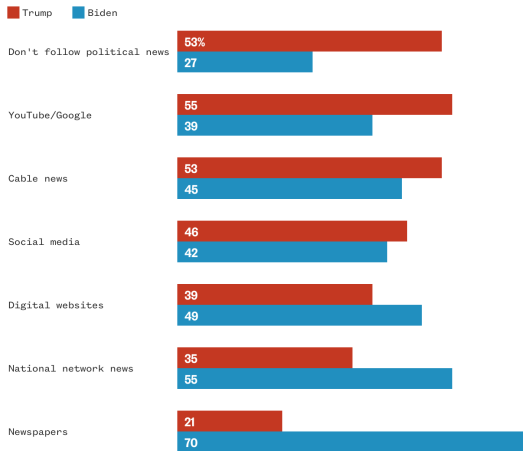
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On prices, many American voters – in a massive failure of retrospective economic voting and basic economic knowledge – decided they wanted, and could somehow get 2019 prices back again by putting back the man who was then president

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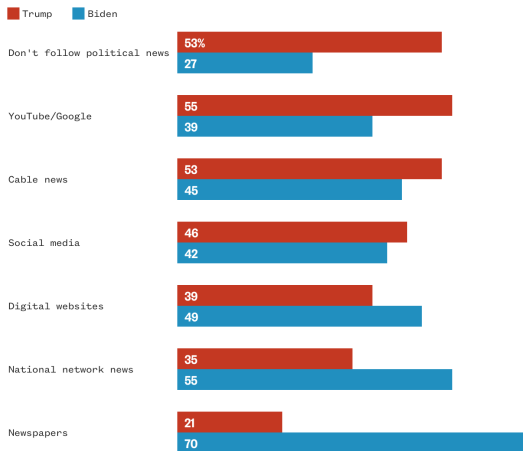
But drill deeper: informed voters overwhelmingly favored the incumbent government

However, broad shifts away from consumption of formal media towards social media, podcasts, and partisan outlets had created a new media ecology increasingly full with propaganda, empty of expertise, and easy for tech industry billionaires to manipulate

Media diets in America are no so polarized they could be said to be *pillarized* into separate silos for Red & Blue America

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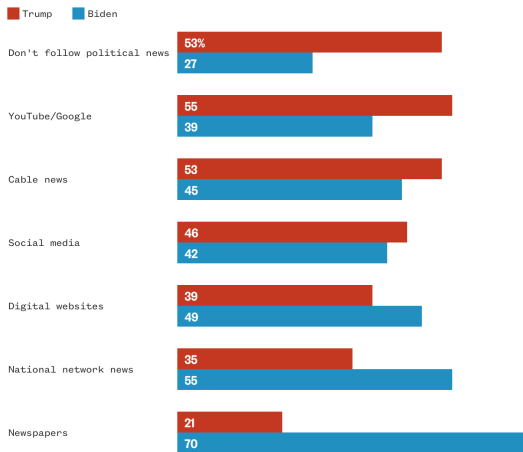
**Source:** The poll was conducted April 12-16 and surveyed 1,000 registered voters nationally. The margin of error is plus or minus 3.1 percentage points.

The independence of the mainstream media is creaking under ownership by oligarchs seeking Trump favors – see the Washington Post, whose owner is in competition with Elon Musk for government space contracts

ABC has already paid protection money to Trump via a frivolous lawsuit; CBS may be next (they want to avoid a blocked merger)

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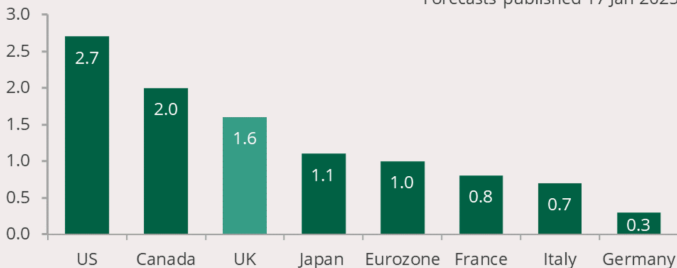
Add in the smarmy Orwellianism of the second Trump administration, which asserts up-is-down with a mocking tone celebrating their ability to create an alternative reality,

and the lifelong systematic lying of Donald Trump, now imitated by an entire political movement, ("a mobster who knew Trump socially said of him once, 'He'd lie to you about what time of day it is – just for the practice.'" *Spy*, 1991)

and prospects for broad exposure to factual reporting about politics & the economy are grim

## IMF real GDP growth (%) 2025 forecasts for G7

\*Forecasts published 17 Jan 2025



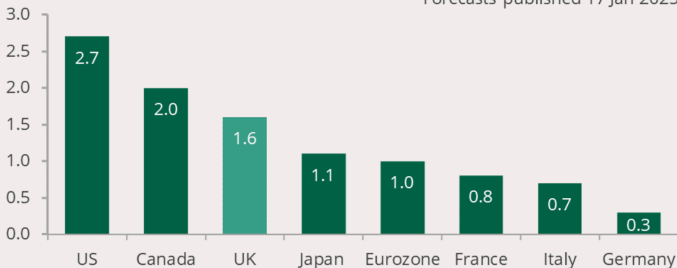
Source: Daniel Harari. "GDP international comparisons: Economic indicators." *House of Commons Library: Research Briefing*. 28 March 2025. <https://commonslibrary.parliament.uk/research-briefings/sn02784/>

In November 2024, Trump's failed attempt to hold on to power in 2020 finally bore fruit

In 2025, the consequences for democracy, the rule of law, civil rights, and countless other human pursuits have been nothing short of catastrophic

## IMF real GDP growth (%) 2025 forecasts for G7

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Source: Daniel Harari. "GDP international comparisons: Economic indicators." *House of Commons Library: Research Briefing*. 28 March 2025. <https://commonslibrary.parliament.uk/research-briefings/sn02784/>

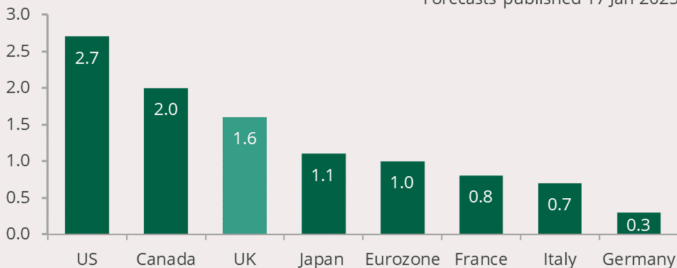
Arguably, no economic miracle is worth this price.

But will Trump voters get the economic renaissance they expected?

On the eve of Trump's second inauguration, forecasts suggested world-leading US growth would continue – is that still likely two months later?

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But will Trump voters get the economic renaissance they expected?

On the eve of Trump's second inauguration, forecasts suggested world-leading US growth would continue – is that still likely two months later? *ha ha ha ha no*



# The Economist

Fantastic, Friedrich

Can Winston Starmer pull it off?

Time to lift Syria's sanctions

RIP foreign aid

MARCH 8TH–14TH 2025



**The  
revised  
economic  
outlook**

Adam Smith famously said  
“there is a great deal of ruin in a  
nation”

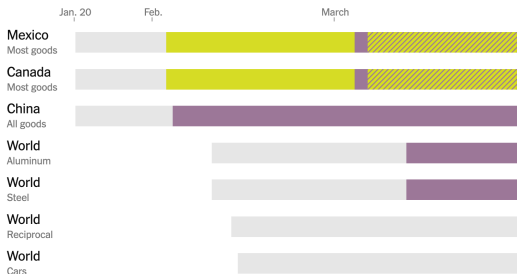
The Trump administration seems  
bent on discovering just how  
much ruin there is in the world’s  
richest, most powerful state.

Based on just the first two months  
of this disaster, I suggest four  
broad sources of potential  
recession and long-term  
economic decline:

**Tariff Wars**  
**State Capacity Collapse**  
**Aggregate Demand Shocks**  
**Inviting Financial Crisis**

## Tracking Trump's Tariffs

Planned In effect Partly in effect Paused



Note: Goods imported from Mexico and Canada covered under the USMCA trade pact received a temporary reprieve from new tariffs.

Source: *New York Times* 28 March 2025.

## Tariff Wars

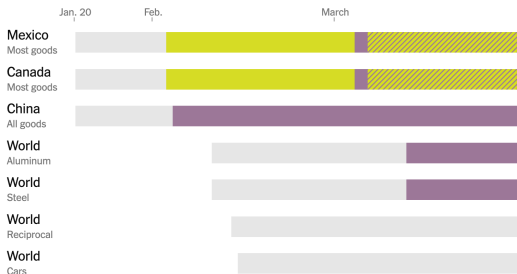
Trump has long truly believed in tariffs as intrinsically good; now he insists they caused American prosperity in the 19th century and can again

As always chaotic, this time Trump seems determined to reshape the US towards autarky via broad, ill-considered tariffs on our key partners – which means higher prices and lower standards of living

For example, North American auto industry is tightly integrated – in the short-run, changing that is impossible; in the long-run, expensive

## Tracking Trump's Tariffs

Planned In effect Partly in effect Paused



Note: Goods imported from Mexico and Canada covered under the USMCA trade pact received a temporary reprieve from new tariffs.

Source: *New York Times* 28 March 2025.

## Tariff Wars

Contra Trump, the US can't produce everything it imports at competitive prices

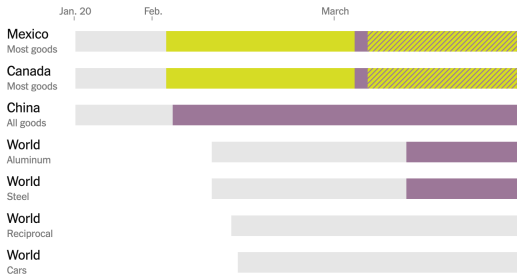
Economically, Trump's tariff policies will produce stagflation like the 1970s

But his aims seem to go beyond tariff wars to wars over land, especially land close to the US that looks big on a map

Even if Trump doesn't invade Greenland or Canada, his posturing is destroying American alliances and driving our former friends into defensive pacts against the US

## Tracking Trump's Tariffs

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## Tariff Wars

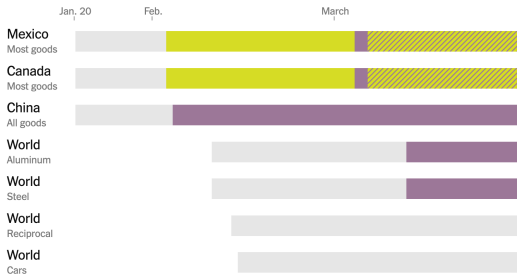
An isolated US – with “friends” like Russia – will lose tremendous soft power with weighty economic consequences

US is already spurning the developing world through dismantling USAID and abandoning global public health, clearing the field for China

Hegemons like the US structure international relations to their advantage – setting those investments on fire and turning on friends isn't clever realpolitik, but a costly demented tantrum

## Tracking Trump's Tariffs

Planned In effect Partly in effect Paused



Note: Goods imported from Mexico and Canada covered under the USMCA trade pact received a temporary reprieve from new tariffs.

Source: *New York Times* 28 March 2025.

## Tariff Wars

One example: a US that makes former friends enemies risks the dollar's status as a reserve currency

Borrowing in other currencies is a risk and constraint the US has not known

Confirmed reduction so far, by agency	
U.S. Agency for International Development	More than 99%
Voice of America (U.S. Agency for Global Media)	More than 99%
Education	46%
Health and Human Services	16%
Energy	13%
Internal Revenue Service (Treasury)	13%
Consumer Financial Protection Bureau	12%
National Oceanic and Atmospheric Administration (Commerce)	11%
Federal Deposit Insurance Corporation	10%
National Science Foundation	10%
Agriculture	6%
Small Business Administration	5%
Federal Emergency Management Agency (Homeland Security)	4%
Housing and Urban Development	4%
Environmental Protection Agency	3%
General Services Administration	3%
Interior	3%
Defense	2%
Transportation	1%
Labor	1%
Transportation Security Administration (Homeland Security)	Less than 1%
State	Less than 1%
Veterans Affairs	Less than 1%
Social Security Administration	Less than 1%
Justice	Less than 1%
NASA	Less than 1%

Source: Elena Shao and Ashley Wu. “What We Know About Cuts to the Federal Work Force.” *New York Times* 28 March 2025.

<https://www.nytimes.com/interactive/>

## State Capacity Collapse

Ignoring the mandates of law and the requirements of contracts, and advised by a team of engineers with little knowledge of public administration, the world’s richest man is running wild through the federal government

He is indiscriminately firing staff without respect to expertise, essential skills, and cancelling projects without any regard for the consequences

Due to Musk’s actions, the IRS now estimates a \$500 billion short-fall in tax returns this season, wiping out any “savings” elsewhere

(Despite its silly name, DOGE is not about efficiency or cost savings – just tearing down the state)

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National Science Foundation	10%
Agriculture	6%
Small Business Administration	5%
Federal Emergency Management Agency (Homeland Security)	4%
Housing and Urban Development	4%
Environmental Protection Agency	3%
General Services Administration	3%
Interior	3%
Defense	2%
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Christopher Adolph (University of Washington)

## State Capacity Collapse

Cuts to NIH threaten research on cancer at a critical time – successful cancers vaccines are literally in the pipeline

Massive cuts to Health and Human Services by a vaccine skeptic risks another pandemic disaster (bird flu ready to seize the opportunity)

Generally, federal expertise is needed to mitigate exogenous disasters before they cripple the economy – Musk's buzzsaw shreds that safety net

Through history, state capacity is hard won and central to the success of nations, including their continued economic development

Is there any example of a great power systematically sabotaging its own capacity in the way Trump & Musk have done in 2025?



The revised economic outlook

## State Capacity Collapse

In 2025, 69 million Americans will receive payments from Social Security, for a total of \$1.6 trillion

A terrifying near-term crisis: Musk thinks he can rewrite Social Security's payment system from COBOL to a modern language in months – experts say this would take years to do without risking the system

So far, Musk's Social Security team has shown huge gaps in understanding of Social Security software, leading to preposterous claims of mass fraud (in reality, both overhead and fraud are tiny, so savings aren't possible)

Former commissioner Martin O'Malley: "You're going to see the system collapse and an interruption of benefits...within 30 to 90 days."





## Aggregate Demand Shocks

Trump wants to renew his expiring 2017 tax cuts; the only place he can find cuts to pay for them are in Social Security, Medicare, and Medicaid

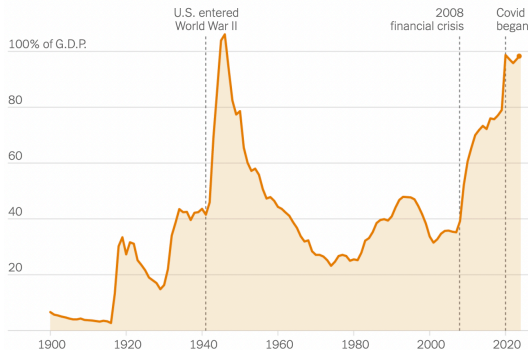
House (but not yet Senate?) Republicans are targeting Medicaid, a joint federal-state program; in 2023, the federal share was 69%

Yet the 31% paid by states was generally the largest item in state budgets besides education

Federal cuts to Medicaid would force states – which by law cannot run deficits – to cannibalize other spending to keep Medicaid running

Result would be a recession driven by huge cuts to health care, schools, and public employment

## Federal debt as a share of G.D.P.



Note: Chart excludes debt the federal government owes itself. • Source: Congressional Budget Office • By The New York Times

## Aside on federal debt & spending

Federal debt is high after the crises of the 21st century and the Bush & Trump tax cuts

We will explore this issue more deeply in coming weeks

Source: German Lopez and Ashley Wu. "How Much Does America Spend?" *New York Times* 31 March 2025.

<https://www.nytimes.com/2025/03/31/briefing/us-federal-government-spending-doge.html>

## Federal spending by function in fiscal year 2024

From October 2023 to September 2024

Total: \$6.8 trillion

<b>Social security</b> 21.6%	<b>Medicare</b> 12.9%
	<b>Defense</b> 12.9%
<b>Other health services</b> (includes Medicaid) 13.5%	<b>Income security</b> (includes welfare programs) 9.9%
<b>Interest payments</b> 13.1%	<b>Other</b> 4.6%
	<b>Education</b> 4.5%
	<b>Veteran's benefits and services</b> 4.8%
	<b>Transportation</b> 2%

Note: Numbers may not add up to 100 percent due to rounding. • Source: Treasury Department • By The New York Times

*Aside on federal debt & spending*

Drastic cuts to the budget can only happen if Social Security, Medicare, Medicaid, and/or defense are drastically cut – that's where the money is

Cutting these would be unpopular & recessionary

The smaller programs Musk is targeting offer minimal potential direct savings and huge potential indirect costs

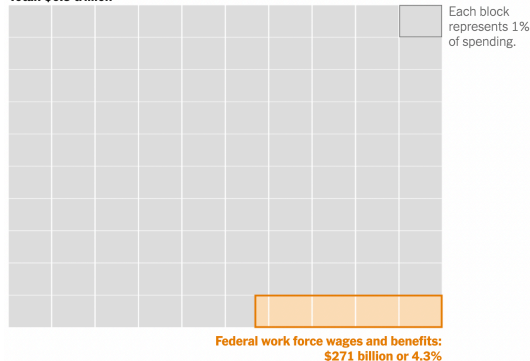
Source: German Lopez and Ashley Wu. "How Much Does America Spend?" *New York Times* 31 March 2025.

<https://www.nytimes.com/2025/03/31/briefing/us-federal-government-spending-doge.html>

## Federal spending in the fiscal year 2022

From October 2021 to September 2022

Total: \$6.3 trillion



Sources: Congressional Budget Office; Treasury Department • By The New York Times

Source: German Lopez and Ashley Wu. "How Much Does America Spend?" *New York Times* 31 March 2025.

<https://www.nytimes.com/2025/03/31/briefing/us-federal-government-spending-doge.html>

## Aside on federal debt & spending

Federal payrolls are just 4.3% of the federal budget – not even 15% of the current deficit!

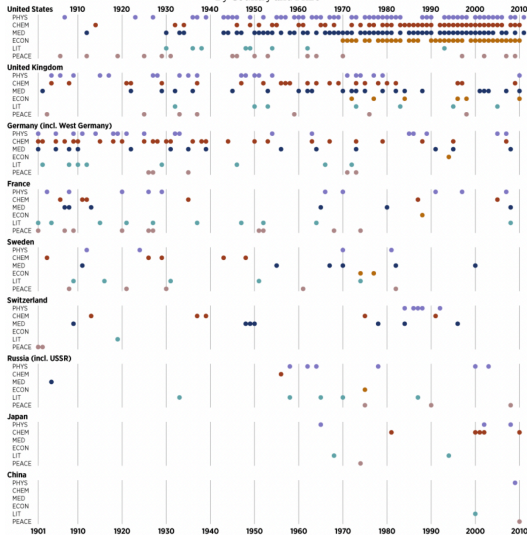
And trimming payrolls may raise total costs – these are workers, not benefits recipients

Some bring in net revenue; others provide efficiencies; many would be more expensive to replace with private contractors

Decimating the federal workforce can't reduce the deficit – only raising taxes or cutting popular spending can

# Nobel Laureates

By Country and Prize



SOURCE: NOBELPRIZE.ORG

Laureates are shown in the country that hosted their research at the time of award  
Last updated on October 4, 2011

Forbes [blogs.forbes.com/jonbruner](https://blogs.forbes.com/jonbruner)

## Aggregate Demand Shocks

American science, medicine, and universities have been world leading since the middle of the 20th century

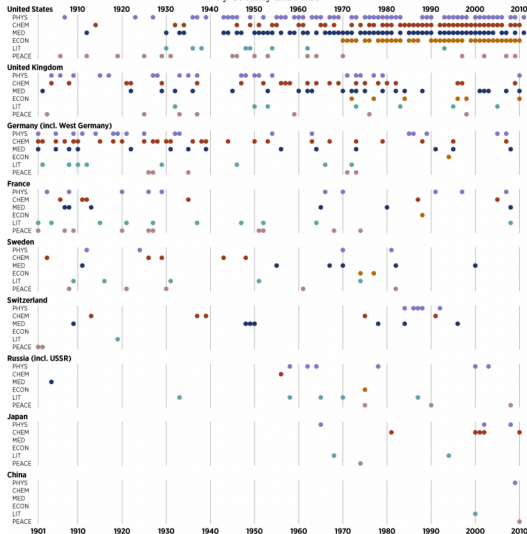
Critical to short-run economic health of countless communities, and long-run economic growth of the nation

Musk has taken a wrecking ball to a system few elites would ever risk (NIH and NSF)

Trump is shaking down major universities with no concern for whether they survive

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## Aggregate Demand Shocks

In 20 years, will the US still be a leader in science?

Without a robust NIH, will it still be able to train enough doctors?

If you doubt this is possible, look at who led the world in Nobel prizes prior to the United States

Bigger question to ponder:

*Are Trump & Musk intentionally waging a war on expertise and professionals as a whole?*



## Aggregate Demand Shocks

The Trump administration can sink the economy by turning off high-multiplier government programs in favor of low-multiplier tax cuts for the rich

But the private sector is also at risk: who wants to invest when massive policy changes turn on and off every week? Uncertainty is anathema for much corporate investment, and without it, GDP sinks

And when the economy tanks, will automatic stabilizers (including Medicaid and unemployment) step in to slow the fall if the federal government is decimated and state budgets are already in crisis?

Or will a Trump-Musk regime grease the skids for a deeper recession, contrary widely accepted practice in the postwar period?



## Inviting Financial Crisis

Starting Wednesday, we turn back to the first decade of the century to understand how the Great Financial Crisis came to be

A key part of that story involves decades of effort (since partially reverse) to weaken financial regulation

Musk's chainsaw has targeted key parts of the post-financial-crisis regulatory regime, including the Consumer Finance Protection Bureau

Thus, we must ask: if there is a new financial crisis in the coming years, will it trigger another Great Recession like event?





The  
revised  
economic  
outlook

## Inviting Financial Crisis

More broadly, Trump claims all acts of Congress to create independent regulatory agencies are unconstitutional

He insists the president alone should have direct power over all regulatory and law enforcement functions (and the Supreme Court may ultimately back him here)

He even wants to claim power over the Federal Reserve's regulatory policies

Trump also wants to build a "National Crypto Reserve" by buying up vast sums of (intrinsically worthless) digital coins



The revised economic outlook

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I have two words to ponder if you're still sleeping well in 2025: Bitcoin Bailout