

How Trump and Sanders are being fueled by anger over the economy

Support for outsiders Trump, Sanders remaking American politics

By Jeffrey Bartash March 9, 2016

WASHINGTON — President Barack Obama insists the American economy is “pretty darn great right now” and economists say the U.S. is in the best shape in years.

Hogwash, millions of voters say.

Unrest over the U.S. economy and the country’s future is making itself plain from New Hampshire to Nevada and from Michigan to Mississippi. Voters have turned out in droves to support populist candidates Donald Trump and Bernie Sanders, ushering in perhaps the most turbulent era in American politics since the Vietnam War.

These unlikely candidacies have been fueled by the people hurt worst in the aftermath of the Great Recession: Middle-aged Americans who lack a college degree and young people trying to launch careers in uncertain times.

Many blame Washington and they want an outsider to fix the mess. Although the socialist-leaning Sanders is still an underdog against Hillary Clinton, Trump has seized a commanding lead in the Republican primary and is favored to become the party’s presidential standard bearer.

His slogan: Make America Great Again.

How the increasingly pivotal 2016 election ends is far from clear. Yet the political convulsion is likely to persist long after the winner is known barring a sudden boom that returns the U.S. to historic growth levels — a scenario virtually no economist predicts. Most see slow growth as the new normal and they doubt a new president can turn the economy around in a hurry.

“For the average citizen, all they know is that their standard of living is not growing like it did before,” said Stephen Stanley, chief economist at Pierpont Securities. “We’ve never had this kind of recovery.”

21st century economy

The roots of malaise are deep, but they can be traced to the rise of the Internet and the emergence of Chinese economy onto the global stage in the late 1990s.

A tech explosion killed off many traditional forms of work, destroyed heaps of older firms that failed to adapt and crystallized a new post-industrial order dominated by companies such as Apple AAPL, +0.74% , Amazon AMZN, +0.96% and Google GOOG, +0.39%. These firms thrive in large part by substituting technology for humans and helping other companies to do the same.

Suddenly shoppers could go online and buy goods more cheaply, forcing local brick-and-mortar companies to slash costs to compete or go out of business.

Another way companies cut costs was to shut U.S. operations and move overseas to countries with cheaper labor. A slew of free-trade deals signed by Presidents Bill Clinton and George W. Bush and China’s full acceptance into the global economy hastened the shift toward “outsourcing.”

Millions of American consumers benefited from an influx of cheap Chinese goods, but millions of people were also thrown out of work. The U.S. lost 6.2 million well-paid manufacturing jobs between 1998 and 2010.

“Tech and trade have made many jobs obsolete,” said **Bernard Baumohl, chief global economist at The Economic Outlook Group**. “We are changing at a faster rate than our ability to train workers for the new economy.”

The devastating recession that lasted from the end of 2007 to the middle of 2009 revealed the hollowing out of the U.S. economy. Yet lawmakers in Washington failed to adapt to the rapidly shifting tectonic plates in the world economy with new tax and regulatory policies to make the U.S. a better place to do business, economists and business leaders say.

The result: the weakest recovery since the end of World War Two.

The U.S. has expanded about 2% a year since 2010, far below the 3%-plus growth rates that used to be the norm. The poverty rate has surged, the number of people on disability jumped to a record 9 million and millions of Americans simply dropped out of the labor force.

“We are running at half speed and Americans feel that,” said Phil Orlando, a veteran stock-market strategist at Federated Investors. “The top 1% is doing fine, but the rest of the country is just limping along. The public is very frustrated.”

Even a record number of job openings and a big rebound in hiring over the past

five years hasn't done much to push the economy onto a faster growth path. The U.S. has created 12.7 million jobs since 2011, pulling the official unemployment rate below 5% for the first time since 2008.

Still, the Federal Reserve predicts the economy will trudge along at a 1.8% to 2.2% growth rate until at least 2018. And about two-thirds of Americans say the country is heading in the wrong direction,”

Harder to get ahead

The rosy numbers on the labor market that President Obama touted in a White House appear last week mask some stubborn problems. One of the most acute is weak wage growth despite a sinking unemployment rate.

Hourly pay has been rising just 2.1% a year since the recovery took root in 2010. By contrast, wages grew 3.2% annually during the 2001-2007 expansion and 3.2% in the 1991-2000 boom.

“Employers are finding ways to avoid wage increases,” said Harry Holzer, professor of public policy at Georgetown and co-author of Where are all the Good Jobs Going.

Chief U.S. economist Steve Ricchiuto of Mizuho Securities partly blames Wall Street for the plight of Main Street. He argues that pressure by investors for fatter returns has driven more companies to use their profits to buy back stock or hand out bigger dividends. Less money is going toward workers or capital investment, the key to a higher standard of living in the long run.

The squeeze is evident in stagnant household incomes. Taking inflation into the account, households are earning the same amount of money now as they were 15 year ago, offering more proof that the economy's problems run deep. It's hard for millions of people to get ahead anymore.

Older blue-collar workers and Americans lacking college degrees have been hardest hit. Millions lost good-paying jobs making cars, producing steel or building homes.

Just 13.2% of all U.S. workers were employed in manufacturing and construction at the end of 2015. That's down from 15.1% before the Great Recession and 18.2% in 2000.

Although many of these displaced workers found new jobs, it was often in fields that paid less and where 40-hour work weeks are rare.

The percentage of able-bodied Americans working at restaurants and hotels, for instance, has climbed to nearly 11% from 9.6% a decade ago, These jobs typically pay less than \$17 an hour — the national average is \$25 — and most employees work 30 hour or less a week, Labor Department figures show.

The raw anger and alienation of voters is no longer bubbling below the surface. Americans struggling economically have formed the base of Trump's support. The wealthy New York businessman has done well with most conservative groups, but about half of his vote has come from those who lack a college degree. About one-third of his supporters make less than \$50,000 a year, exit polls show.

Sentiment against illegal immigration, meanwhile, has animated a sizable number of conservatives and the rank and file in both parties have turned against free trade, once a bipartisan U.S. hallmark in the post World War Two era.

In Michigan, 58% of Democratic voters and 55% of Republicans said free trade has cost America jobs. They went heavily for winners Trump and Sanders, both of whom have bashed free trade and promised a tougher approach with other nations.

Young and restless

The stunning success of Sen. Bernie Sanders, the obscure 75-year-old socialist from Vermont, has revealed another fault line. Young, educated people are yearning for something different.

Coming of age in the relatively prosperous 1990s and early 2000s, many so-called millennials had high expectations after they graduated from college.

The Great Recession was rude awakening: Good jobs became hard to find and millions had to accept work that didn't fully utilize their skills.

"Millennials have seen a bigger shift to lower-paying jobs," said Sarah Watt, an economist at Wells Fargo Securities who's extensively researched the plight of younger Americans. They've also had the smallest wage gains since the end of the recession.

Burdened by large student debts and holding more menial jobs, a record number of millennials have also become "boomerangers — they moved back home to live with their boomer parents.

The struggles of millennials has hurt the broader economy. They earn and spend less, start families later and buy fewer big-ticket items such as new cars and homes.

Even after a surge in 2015, so-called household formation still hasn't returned to prerecession levels. That's why sales of new homes — an accelerant for the economy — are still running 60% below their all-time high.

Sanders has captivated younger voters in part by promising "free" college and help with student debt, which now totals a record \$1.3 trillion. In states such as New Hampshire and Michigan he won about 80% of the voters between the ages of 18 to 29.

"The young crowd, the millennials, have really suffered a lot," Stanley said.

Anger at Washington

Anxiety about their own financial situation and the health of the U.S. economy is not enough to explain the political uprising, however. Many voters also feel ignored by their leaders in Washington, especially Republicans.

A recent Rand Corp survey of voters, for example, found that most Trump supporters believe “people like me don’t have any say about what the government does.”

Trump has shown the most skill in tapping into that frustration. Exit polls of voters show he’s dominating among people who want an outsider who will take on the so-called establishment. More than half of all Republicans say they feel betrayed by party leaders.

Yet many economists question whether Trump or Clinton can actually help the economy with the policies they’ve proposed.

Threats by Trump to enact large tariffs on Chinese goods or force Mexico to pay for a wall on the border, for example, could trigger a trade war that also damages the U.S. economy, particularly in key states such as Texas and California that rely heavily on exports.

“I am troubled about Trump’s statements. Frankly, that has the stench of the Smoot-Hawley tariffs,” said Baumohl, referring to the 1930 law seen as contributing to the onset of the Great Depression. “People are very nervous about that.”

Hillary Clinton, the likely Democratic nominee, is proposing a slew of new regulations and taxes. She’s also become a critic of fracking, a technology that’s unlocked huge stores of domestic oil and helped drive the price of gasoline below \$2 a gallon from more than \$4 just a few years ago.

“I have heard absolutely nothing from any of them that would make a big difference,” said chief economist Richard Moody of Regions Financial. “When you look at tax and regulatory policy, it’s been pretty dismal and not conducive to businesses expanding.”

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