

2016 Year-End: We're In for a Wild Ride. A Period of Economic and Political Upheaval

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The main message of 2016 was that we are entering a period of economic and political upheaval comparable to the industrial revolution of 1780-1850, and nothing expressed that message more clearly than Donald Trump's appointment of Andrew Puzder as Secretary of Labor. Even though it's clear that neither man understands the message.

Puzder bears a large part of the responsibility for fulfilling Trump's election promise to "bring back" America's lost industrial jobs: seven million in the past 35 years. That's what created the Rust Belt and the popular anger that put Trump in power. But Puzder is a fast-food magnate who got rich by shrinking his costs, and he has never met a computer he didn't like.

"They're always polite, they always upsell, they never take a vacation, they never show up late, there's never a slip-and-fall, or an age-, sex-, or race-discrimination case," he rhapsodised. They also never take lunch or toilet breaks, they'll work 24 hours a day, and they don't have to be paid. So out with the workers and in with the robots.

It was not evil foreigners who "stole" most of those seven million American jobs, and will probably eliminate up to 50 million more in the next 20 years. It's the 'intelligent machines' that did most of the damage, starting with simple assembly-line robots and ATMs. ("Every Automated Teller Machine contains the ghosts of three bank tellers.")

But the automation keeps moving up the skill sets. The first self-driving cars are now on the road in the United States. That's another four million jobs down the drain, starting with taxi drivers and long-distance truckers. In recent years eight American manufacturing jobs have been lost to automation for every one lost to "globalization", and it will only get worse.

A 2013 study concluded that 47 percent of existing jobs in the United States are vulnerable to automation in the next 20 years, and the numbers are as bad or worse for the other developed countries. This is what is really driving the "populist revolution" that caused two of the world's oldest democracies to make bizarre, self-harming political choices in the past year. First Brexit, then Trump.

Leaving the European Union will hurt Britain's economy badly, and putting a man like Donald Trump in the US presidency is a serious mistake. Yet half the voters in each country were so angry that they didn't care about the likely negative consequences of their vote.

There is more to come. Beppe Grillo's populist Five-Star Movement may win the next election in Italy. Marine Le Pen's National Front (no longer openly anti-Semitic, but still basically neo-fascist) could win the French presidential election next spring. The Netherlands

and Germany may see hard-right, anti-immigrant parties in governing coalitions after their forthcoming elections.

Some people fear that we are seeing a re-run of the 1930s. Economic growth has slowed since the crash of 2008, and unemployment is much higher than it looks. The official US unemployment figure is only 5 percent, but almost one-third of American men between the ages of 25 and 54 are “economically inactive”. So angry populist leaders are popping up again all across the developed world.

The ‘Dirty Thirties’ ended in the Second World War, and there are obvious parallels today. The European Union is fraying at the edges, and Donald Trump has talked about curtailing US support for NATO. He has also threatened to slap huge tariffs on Chinese exports to the US, and it’s probably a bad idea to push China too hard when it is already in grave economic trouble.

But this is not the 1930s. There are no ranting dictators promising revenge for lost wars, and government benefits mean that unemployment is no longer a catastrophe for most people in Western countries. The old white working class (and some of the middle class) are angry because jobs are disappearing and because immigration is changing the ethnic balance in their countries, but they are not angry enough to want a war.

Trump’s election means that we are in for a wild ride in the next four years, but he will ultimately disappoint his supporters because he is barking up the wrong tree. He cannot bring back the jobs that were lost, because most of them were not lost to his favourite culprits: free trade and uncontrolled immigration.

Even if Trump understood this, he could not admit it in public, because there is nothing he can do about it. He might ban immigrants coming in to “steal American jobs”, and he can tear up free-trade deals to his heart’s content, but his own cabinet contains people who have built their careers on eliminating jobs through automation.

This is change on the scale of the (first) industrial revolution, and you can’t fight it. But then, you really don’t need to. American industry has shed seven million jobs since 1979, but the value of US factory production has more than doubled (in constant dollars). It is only jobs that are being destroyed, not wealth.

It is not a disaster for a rich society to reach a point where the same goods are being produced and the same services are being provided, but most people no longer have to work 40 or 50 hours a week (in jobs that most of them hate). Or rather, it’s not a disaster **UNLESS HAVING NO WORK MEANS HAVING NO MONEY OR SELF-RESPECT.**

The main political task for the next generation (post-Trump) in the developed countries will be to ensure that those without work have an income they can live on, and don’t lose their self-respect. Other ways will doubtless be suggested, but one way of achieving this that is already getting attention is a Universal Basic Income (UBI).

The UBI would provide everybody with enough to live on. Since everybody got it, there would be no stigma involved in living on it. And 53 percent of today’s jobs will still be there in 2033, so those who really wanted to work could top up their UBI with earned income. There would still be millionaires.

The first national referendum on UBI was held in Switzerland last June. It was a radical new

idea, so of course it was overwhelmingly rejected. But this idea will not go away, and there will be more like it. The rich countries can stay rich and stable if they understand the nature of the task – but the developing countries may face a grim future.

No UBI for them — they are not rich enough, not even China. But automation is eating into their newly gained industrial jobs too. A recent Citibank report estimated that 77 percent of Chinese jobs are at risk from automation, and in India there is talk of “premature deindustrialisation” (i.e. industrial jobs in India may be peaking right now, and will then go into decline).

That would not just mean continuing poverty for many, but huge political turmoil – populist revolutions and super-Trumps. The future (including the near future) will be quite interesting.

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