The Political Economy Logic Behind the Political Changes in the United States

Yuzhe Chi[1], Chaoou She[2, *], Yixin Zhang[3], Haibo Zhu[4]

[1]LivingWord Shanghai, Shanghai, China

[2]Zhongnan University of Economics and Law, Wuhan, China

[3]Chengdu Shiwai West District School, Chengdu, China

[4]Shenzhen Academy of International Education, Shenzhen, China

* Corresponding Author Email: gonglin@ldy.edu.rs

Abstracts. The neoliberal reforms implemented during Reagan's administration, while once revitalizing the U.S. economy, also sowed great potential problems for society. The trend of increasing income inequality, accelerating de-industrialization and capital concentration in the financial sector has caused the continuous decline of the "Rust Belt" region, and the gradual marginalization of blue-collar workers in the social status, and the prolonged accumulation of these social contradictions has finally erupted into violent political energy, which has brought about far-reaching impacts on the American society. This paper explains the socio-economic mechanism of the "Rust Belt" dilemma: under the neo-liberal-dominated global division of labor system, the region has lost its comparative advantage in heavy industry, and many industries have migrated to new industrial regions with lower labor costs. At the same time, the weakening of government regulation and the influence of labor unions has led to a prolonged failure to protect the claims of local workers. Economic hardship and unfair income distribution have caused residents to accumulate a great deal of dissatisfaction with the existing system. The Rust Belt's support for Trump in the 2016 election was a strong rebellion against the neoliberal economic model and the establishment parties. Trump's victory reflects the dissatisfaction of the region's residents with the imbalance of economic development and signals a new round of social unrest.

Keywords: Reaganomics, neoliberalism, Rust Belt, Donald Trump.

1. Introduction

As the capitalist world's program to deal with the last round of social crisis, neoliberalism has undoubtedly achieved a brilliant victory. This doctrine, which was born out of classical liberal economics, was born in the historical period after the Second World War, when the laissez-faire economic model was abandoned and Keynesianism dominated. A group of right-wing scholars, represented by Hayek, Mises, Friedman and other scholars, gradually built up an academic group with a neoliberal theoretical picture to respond to the challenge of the socialist camp to the capitalist order, while continuing to discover the theoretical value of classical liberalism. As the western countries fell into the stagflation crisis in the 1970s, the shortcomings of the Keynesian model appeared, forcing the decision-makers of various countries to look at the "prescription" given by neo-liberals.

To get out of the long-term stagflation predicament, Reagan and Thatcher and other leaders came to power, adopted privatization, deregulation and give full play to the market competition mechanism and other measures, and successfully reshaped the political and economic order of the capitalist world, leading a new round of prosperity cycle in Western countries. The promotion and application of neoliberalism by this group of leaders laid the foundation for the capitalist camp's victory in the Cold War, and at the same time pushed this doctrine into the mainstream view. A series of major events, such as the collapse of the Soviet Union and the end of the Cold War, confirmed the success of neoliberalism and gradually evolved it into an unquestionable dogma.

In his book *A Brief History of Neoliberalism*, Marxist scholar David Harvey defines neoliberalism as a theory of political and economic practices. The theory argues that human happiness can be maximized by unleashing the freedom and skills of individual enterprise within an institutional framework - one characterized by solid individual property rights, free markets, and free trade [1]. After the 1990s, neoliberalism was able to take advantage of the process of globalization, spreading deeply throughout the world and establishing its ideological hegemony, and all countries in the world were forced to accept, to a certain extent, a governance paradigm that was characterized by its advocacy of free markets and its promotion of the withdrawal of the role of government from public administration.

It can be said that it was not until the outbreak of the subprime mortgage crisis that the myth of neoliberalism went to pieces, and the reflection on this philosophy has been growing day by day. The victory of Republican Donald Trump in the 2016 U.S. election has pushed this critique and reflection on liberalism to a climax. Articles such as Zhang Wenzong's "The U.S. "Rust Belt" and Its Political Impact" and Wang Hao's "The "Trump Phenomenon" and the Logic and Trend of U.S. Political Change" clearly point out that the "Rust Belt" is the only place where the blue-collar working class has a strong influence on liberalism [2,3]. "The blue-collar working class had a crucial impact on the outcome of the election. Behind the historic event of Donald Trump's victory, it reflects the serious dissatisfaction of the "Rust Belt" states with the existing political and economic system in the United States. Scholar Micheal Mcquarrie even used the term "Rust Belt revolt" to describe Trump's victory in his article "The revolt of the Rust Belt: place and politics in the age of anger" [4]. Komlos J.'s "Reaganomics: a watershed moment on the road to Trumpism" focuses on the negative impact of Reaganomics on American society from an economic perspective, revealing the fragility of the neoliberal economic system [5].

The so-called "Rust Belt" refers to the industrial decline of the Great Lakes region of the United States, which was once regarded as the center of the U.S. economy and the heart of industry, but which has experienced an overall and sustained decline over the past half-century. Although the neoliberal reforms implemented by the Reagan administration in the 1980s successfully revitalized the U.S. economy, they also deepened the financialization of the U.S. socio-economic structure and intensified the phenomenon of de-industrialization, which has made the Rust Belt, a region that relies on the manufacturing industry for its survival, pay a heavy price, and caused a great impact on the blue-collar working class, which had experienced the golden age. The trend has taken a heavy toll on the "Rust Belt" region's dependence on manufacturing, hit the blue-collar working class hard after the golden years, and contributed to the region's stunning political turn in the 2016 election.

Reagan's tenure radically altered the functioning of the U.S. economy and laid out the basic principles of how the U.S. political and economic system would operate in the post-Cold War era, which makes it important to look at the far-reaching impacts of his policies on U.S. society in general, and on the Rust Belt in particular. The accumulation of social contradictions behind the plight of the "Rust Belt" undoubtedly has a long evolutionary process, and when we analyze this grand historical change, we also need to go back to the source, that is, Reagan in the 1980s personally initiated the transformation of U.S. society towards neo-liberalism.

2. Reaganomics and the Functioning of the U.S. Economy in the Post-Cold War Era

Reagan's personal image was closely associated with neoliberalism. During his tenure, reforms centered on the theory of supply economics, more commonly known as "Reaganomics," advocated deregulation and tax relief to stimulate economic momentum, increase the supply of goods and services, and thereby raise incomes for all [6]. These reforms, which included drastic tax cuts, reining in government spending, deregulation, privatization, tightening monetary policy, and a new trade policy, allowed the U.S. to emerge from the dilemmas of high inflation, unemployment, and low economic growth. and low economic growth rate and won a great reputation for the neo-liberal doctrine. To date, Reagan's political and economic practices are regarded as one of the most successful cases of neoliberalism.

2.1. The Success or Failure of the Trickle-Down Effect

Trickle-down effect is a concept often utilized by Reagan in pursuing his policy ideas. Trickle-down effect advocates the implementation of policies favorable to the wealthy grassroots, such as large-scale tax cuts, the abolition of tax brackets and other means to help drive the growth of overall social wealth, so that the incremental wealth of society to the middle and lower classes to penetrate, prompting all the community from the economic development of the benefits.

The trickle-down effect was politically significant in that it intuitively provided the American electorate with a rosy collective vision that economic growth would benefit all, a view that laid the foundation for the introduction of Reaganomics [7]. Wrapped in this terminology, the Reagan administration had to coalesce strong political forces through America's democratic electoral system to open the way to market liberalization. Accompanying this was a set of neoliberal policy systems.

In terms of tax policy, the Reagan administration implemented the largest tax cut program since the Great Depression, which was also the most central part of Reagan's policy - the trickle-down effect. The top marginal individual income tax rate was reduced from 70 percent to 28 percent, and there were significant reductions in corporate tax rates. At the same time, the government introduced accelerated depreciation, which allowed businesses to calculate depreciation more quickly over the early stages of an asset's useful life to encourage capital investment. These measures were designed to increase personal and business disposable income and stimulate investment and consumption.

Deregulation was another important pillar of Reaganomics. The government reduced regulations on businesses and financial institutions with the aim of reducing business operating costs and promoting market competition. This policy was widely implemented in several industries, including finance, energy, and transportation. The Reagan administration also promoted a series of privatization measures to encourage the transfer of some government functions to the private sector to increase efficiency and reduce government spending.

In terms of monetary policy, the Reagan administration supported the Federal Reserve's policy of high interest rates in order to control the serious inflation problem at that time. Although this policy caused a recession in the short term, it eventually succeeded in lowering the inflation rate and laid the foundation for subsequent economic growth. For international monetary policy, the Reagan administration chose to continue to maintain the hegemony of the US dollar in the world monetary system with a high exchange rate, and to continue to consolidate and strengthen its dominant position in the international financial system. Reagan generally adhered to the principle of free trade, supported the General Agreement on Tariffs and Trade (GATT, the predecessor of the World Trade Organization), and pushed for the start of the Uruguay Round of negotiations. He also supported a free trade agreement with Canada, which provided a useful reference for the subsequent North American Free Trade Agreement (NAFTA).

This combination of policies did lead to significant economic growth in the early years of its implementation, with unemployment falling and inflation under control. It was also this set of policies that established the basic principles of the subsequent U.S. economic model, which prioritized the maintenance of free competition and economic growth over social justice and was followed by the same path of governance by subsequent successors, although there have been many changes in policy details. But because of the remarkable success of these policies at the time, the huge costs behind them have been long ignored, such as rising income inequality, increased government deficits, and the erosion of labor welfare, the effects of which continue to be felt to this day.

2.2. Policy Costs and the Decline of the Rust Belt

The decline of the Rust Belt is one of the costs of Reaganomics, a phenomenon that profoundly reflects the enormous impact of neoliberal economic policies on the structure of the U.S. economy and social landscape.

From a macroeconomic point of view, behind the economic boom initiated during the Reagan era lie deeper problems such as a significant decline in median household income (relative to inflation), accelerated de-industrialization, and industrial shifts. Reaganomics dramatically changed the pattern of income distribution through comprehensive tax cuts, leading to a steady deterioration in the economic conditions of the middle and working classes, an increasing concentration of social wealth in the top 1%, and a significant increase in the political influence of the monopoly bourgeoisie. During the Reagan administration, the U.S. fiscal deficit increased dramatically, surging from $7.4 billion in 1980 to $155 billion in 1988. Deficit financing gradually became the norm, with government debt accumulating more than 100% of GDP, and this debt was used primarily for defense spending rather than infrastructure and social welfare improvements [5]. It also accelerated the rise of oligarchy as oligarchs were often linked to military-industrial interests.

A series of policies dominated by neoliberal ideology have weakened the regulatory function of the government and the checks and balances of labor unions, making it difficult to effectively protect unemployment benefits and workers' welfare, and severely suppressing the voice of the blue-collar working class. With the implementation of these policies, the bourgeoisie has continued to push for industrial upgrading and relocation in order to increase labor productivity, production efficiency, and profitability. However, due to the economic downturn and the absence of an effective fiscal transmission path, the liquidity released by monetary policy did not effectively flow into the real economy, but instead poured into the financial market. Driven by the capital logic of profit maximization, if there is a lack of effective government regulation, this trend of product upgrading, efficiency improvement and industrial upgrading will eventually lead to the flow of capital from the secondary industry to the financial sector due to the bottleneck in profit growth. In this process, the living space of industry is continuously compressed, and the economic structure of the Rust Belt, which is backed by heavy industry, faces serious challenges. In addition, neoliberal economic policies in the Rust Belt triggered a series of chain reactions: the influx of new industries stimulated the continuous upgrading of products, which lowered costs and increased efficiency, but at the same time led to a decline in local workers' wages and an increase in the unemployment rate, and this economic policy essentially turned into a plundering of the rich for the poor [8].

Under the neoliberal-dominated international system of industrial division of labor, manufacturing in the Rust Belt has gradually lost its competitive advantage. For liberal economies pursuing efficiency and profitability, the high labor costs in the Rust Belt meant that the region no longer had a comparative advantage in heavy industry and became a major exporter of shifting industries. As the Reagan-driven process of economic globalization accelerated, the range of alternative regions suitable for industrial development continued to expand. Many secondary industries moved to countries and regions with lower labor costs and a greater willingness to accept relatively low interest rates, and this industrial transfer further solidified the pattern of the international division of labor. As the newly industrialized regions continue to accumulate advantages in technology and experience, the trend of decline in the Rust Belt becomes more and more difficult to reverse [9].

Along with the decline of manufacturing in the Rust Belt region, local industrial worker groups have been gradually marginalized. The mismatch between their original occupational skills and the demands of the new industries and the difficulty in developing skills compatible with the new industries in the short term led to mass unemployment. Coupled with government intervention and the weakening influence of labor unions, the demands of this group have been ignored for a long time, and the crime rate and unemployment rate have both risen, intensifying social conflicts. The failure of social governance has further accelerated the decline of the Rust Belt, creating a vicious circle that is difficult to break.

3. The Political Economy Mechanism of the Rust Belt Dilemma

3.1. The Changing Political Landscape of the United States in the Post-Cold War Era

During the Great Depression crisis that swept through capitalism world, the Democratic Party establishment and the blue-collar working class united under the banner of Roosevelt's New Deal, forming a political alliance that spanned the industrial workers' group, Southern whites, and ethnic minorities, the so-called "New Deal coalition". This political alliance was deeply rooted in an economic order dominated by interventionist government. In bourgeois democracy, the economic order of the day limited pure market competition, strongly constrained the activities of large corporations and capital, and increased the relative importance of unionization and labor welfare.

However, this Keynesian-influenced model of development ran out of steam in the 1970s, and a long period of economic stagnation and persistent inflation revived the call for change in society. This laid the social foundation for the reorganization of political parties in the United States between 1968 and 1980. As Reagan came to power to implement neoliberal reforms, the trend of party reorganization intensified, and one of the important changes brought about by this round of party reorganization was the gradual disintegration of the political alliance between the Democratic Party establishment and the blue-collar working class.

Xie Tao's research points out that party reorganization inevitably involves changes in the voter bases of each party, and the voter bases of each party are highly geographic, leading to a high degree of coincidence between party reorganization and regional reorganization [10]. This logic was also reflected in the key elections in the United States after Reagan left office. "The collapse of the New Deal coalition in the 1960s allowed the Republicans to replace the Democrats as the face of regional interests in the Midwest and the South, while the Democrats constructed a dominant region in the Northeast-Pacific Coast. By contrast, the states in the Rust Belt evolved into political swing zones.

According to Wang Hao's research, after the election of Republican Reagan in 1980, U.S. politics began to evolve into a pattern characterized by "reciprocal polarization" between the two parties, and this pattern continued until after the end of the Cold War. This pattern continued after the end of the Cold War and was manifested in the intensification of the confrontational tendencies between the two parties, as well as the increasingly violent tensions between the economic and social policies upheld by the two parties [3]. Thus, in all key elections, how to win votes from the "Rust Belt" areas has become an important part of the decision to win or lose the election.

3.2. The Socio-Economic Mechanism of the Rust Belt Dilemma

Looking back at history, the role Reagan played in the changing political landscape of the United States is undoubtedly of foundational significance. What he did was not only to simply inherit the tradition of freedom in American culture, but also to creatively transform it and revive the important value of market competition and limited government in financial capitalism, so that this historical tradition plays an important role in the globalization system. It can be said that American society in the post-Cold War era is built on Reagan's political legacy.

Many of the neo-liberal initiatives taken by Reagan as described above, along with the great prestige brought by his victory in the Cold War, have had a great ideological impact on the globalization process in the name of the "Washington Consensus". Reagan's successors, while making corrections at the policy level, have continued to run the country's economy along a neoliberal path. This also meant that the financialization and de-industrialization of the economy formed an irreversible zeitgeist.

As mentioned earlier, the neoliberal reforms undertaken by Reagan in response to the economic crisis came at a heavy price, and the inhabitants of the Rust Belt largely became the bearers of that price [11]. Although the problems of de-industrialization, party polarization, social fragmentation, and financial interests in the U.S. have a long history, and have been ignored by the public for a long time after Reagan left office, these problems are deeply embedded in the contemporary U.S. neo-liberal system, and the inherent shortcomings of the system have driven the accumulation of social contradictions, which have led to the resonance of discontent in the whole of society, forming a call for the development of the Rust Belt. This has led to a resonance of discontent across society, creating a powerful tension that calls for a new round of change. All of this set the stage for the Rust Belt's complete abandonment of the Democratic Party and its complete reversal to Trump in the 2016 U.S. election.

3.3. The Trump Phenomenon and the Rust Belt's Political Revolt

It can be said that in the 2016 U.S. election, with 24 red states and 16 blue states in the U.S. remaining basically unchanged, it was the collective turn of the Rust Belt that led to the election of Donald Trump as the 45th U.S. president by a margin of 306 to 232 electoral votes [2]. Micheal McQuarrie, in his article "The revolt of the Rust Belt: place and politics in the age of anger", utilizes the term "revolt" to describe the outcome of the election [4]. The results of this election accurately reflect Rust Belt residents' dissatisfaction with the current political and economic system and their urgent call for change.

The rise of Trump and his supporters has had a major impact on establishment forces that have long advocated neoliberalism. Economic issues are an important grip to explain the Trump phenomenon. Under the dictates of neoliberal policies, the process of globalization has had a differentiated impact on different social classes within the U.S. The interests of the industrial working class in the traditional manufacturing belt have been seriously damaged, which in turn has inspired their general dissatisfaction with the status quo, and Trump has been able to accurately grasp the psychological gap that exists in this group, and by hoisting the flags of nativism, populism and white supremacy, and talking about issues such as immigration, employment and social values and other issues, effectively catering to the political demands of the blue-collar working class, which occupies a dominant position in the region, and rallying a huge social force for his victory.

During Roosevelt's New Deal, the blue-collar working class established close cooperation with the Democratic Party through labor unions, community organizations, and other institutions. But neoliberal changes have deeply restructured the U.S. economy, and the ties between the Democratic Party and blue-collar workers have been dissolved in the midst of economic change, causing voters in the Rust Belt to alienate the Democratic establishment over the past several decades [4]. After the end of the Cold War, the Democratic Party sought to advance a political agenda that was heavily influenced by cultural pluralism, and domestically These more visualized shocks have been the most direct factor in shifting political preferences in the region, as the Democratic Party has pushed a political agenda since the end of the Cold War that has been heavily influenced by multiculturalism, embracing globalization in its domestic affairs, advocating policies such as open borders and looser immigration restrictions, and pursuing extreme "political correctness" on issues of ethno-culturalism and identity, which has sparked resentment among conservative white voters.

In his article, McQuarrie emphasizes that the main story of the 2016 election was the "return of the neglected," those who rebelled against the economic, political, and cultural marginalization of their class [4]. The deterioration of economic conditions was the starting point of this revolt, but it was also the blue-collar working class's reaction to social marginalization and loss of privilege. As a result, the votes of the white blue-collar working class became an important force in Trump's election win, and at the same time exposed the deep contradiction between the Democratic Party establishment and this group in the era of economic globalization. Wang Hao, on the other hand, pointed out that the essence of neoliberal ideology and corresponding policies is to safeguard and expand the interests of the American elite, citing the Occupy Wall Street movement that emerged in the wake of the 2008 financial crisis as an indication of the dissatisfaction of the lower and middle classes of American society with the American elite [12]. This class contradiction at the level of income distribution, superimposed on ideological contradiction at the level of political values and racial contradiction between different ethnic groups, and its tendency to intensify, is the catalyst for the outbreak of the "Trump revolution" [12].

4. Conclusion

Neoliberal economic policy was undoubtedly a great success during the Reagan era, which not only enabled the United States to get out of the stagflation predicament of the 1970s, but also re-established the United States as the sole superpower in the international arena and ushered in the hegemonic era of globalization. However, the cost of this policy has also been ignored for a long time, income inequality and the acceleration of de-industrialization process, to rely on traditional manufacturing in the United States “Rust Belt” region has brought a heavy blow.

Reagan, as a faithful follower of neo-liberalism, has an epoch-making status in the history of the United States, and the policies he implemented caused great changes in the social and economic structure of the United States, accelerated the concentration of capital in the financial sector, and the outward movement of manufacturing capacity, which also led to the heavy blow to the former middle class and working class in the “Rust Belt” region. It is the long-term economic difficulties of the residents of the “Rust Belt” region and the accumulation of dissatisfaction with the existing political and economic system that made them oriented to the anti-establishment forces represented by Donald Trump in the 2016 election.

In this paper, Trump’s victory reflects the strong resistance of Rust Belt residents to social elites and establishment forces, which stems from the imbalance of economic development and unfair income distribution produced by the neoliberal economic model. From the historical perspective, this paper analyzes the inner connection between the socio-economic mechanism of the Rust Belt dilemma and Reagan’s neo-liberal policies and tries to clarify the deeper logic of this historical event, to ultimately reveal the political-economic mechanism behind the Rust Belt dilemma.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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