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POLICY BRIEF

The Economic Situation, September 1, 2018

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INTRODUCTION

With September's arrival, those seeking to decipher US economic trends are challenged by three daunting puzzles. The Trump administration's tariff policy is first and chief among them. Will tariffs be extended to European automobiles? One week yes; the next week no. To additional Chinese products? And will there be retaliation? The second is Fed policy: how many interest rate increases and when? The third is foreign and immigration policy. Although these two policy areas may not normally be thought to be central to economic policy, they affect the flow of people and oil. On top of all this, there is uncertainty regarding treaties and alliances that can have a long-term impact on the performance of the US economy.

Mix and stir these ingredients with rocky relations with North Korea and Russia, and Economic Policy Uncertainty Indices hike up. It may be important to remember that higher policy uncertainty correlates with lower growth in US employment. This may be another way of saying that continued high uncertainty can lead, all else equal, to slower GDP growth.

In spite of the uncertainty, recent US GDP growth has been moving at a fast clip. When the Commerce Department's advanced estimate for second-quarter growth arrived showing 4.1 percent, the highest quarterly growth in nearly four years—a level that was adjusted on August 29 to 4.2 percent by Commerce's second estimate—two things stood out. There was (1) a surge in exports generated by firms getting ahead of pending tariffs and (2) a large increase in consumer spending that compensated for the first quarter's weakness. But when adjustments are made for these irregularities, there is still strong 3.0 percent growth. Recall that 2017's real growth was 2.3 percent, and 1Q2018's pace was set at 2.2 percent.

The possibility that 3Q2018 growth may continue at a high pace is supported by the Atlanta Fed's GDPNow project, which, on August 24, estimated 4.6 percent growth for the third quarter.[1] In any case, data tell us we are enjoying a growth surge, at least for now. Continuation will depend, of course, on many things but fundamentally on growth in the labor force and improvements in labor productivity.

In this report, I focus first and most extensively on the trade puzzle. I brush against Fed policy and then discuss an element of the immigration puzzle that enables us to draw inferences about wages and even human happiness. The report includes a major state spotlight section by Patrick McLaughlin and Stephen Strosko that focuses on the state of Illinois. I conclude the report with reviews of three books from my reading table.

THE TRADE PUZZLE

On the trade problem, tariff announcements, threats, and revisions seem to be popping up daily. Understandably, Washington is headquarters for firms and industries seeking protection from foreign competition, appealing for relief from tariffs proposed or already in place or petitioning for relief from markets lost from foreign retaliation. For example, the US auto industry, singing in unison, opposed the imposition of tariffs on foreign-produced vehicles and parts.[2] Some 21,000 US firms sought exemptions from the newly imposed steel and aluminum tariffs. Some firms, such as Whirlpool, that thought they would gain when tariffs were placed on Korean washing machines found that the steel and aluminum tariffs erased those gains.[3]

Other calls for mercy came from the previously strong US agriculture sector, now reeling from revenue-crippling Chinese restrictions imposed on soybeans, beef, and other commodities.[4] In this case, the Trump administration responded by implementing a $14 billion government program for supporting the prices of affected agriculture commodities.[5] The Trump response is a textbook example of how one government intervention in the economy—tariffs—leads to more interventions: subsidies.

Ultimately, of course, consumers will pay for the more expensive appliances, cars, and homes that result from imposed tariffs. Adding to their pains, consumers are never as politically well organized as industrial workers and their employers, whose voices are more easily heard by decision makers in Washington.[6] But not even the well organized are spared: already, we are seeing announcement of layoffs in steel-using industries and realignment of world production by firms seeking to maintain profitability in a highly uncertain global economy.[7] What's more, some firms that were signaling expansion plans are pulling back. But even though each of these episodes involves real people and real hardship, it is too early to detect these potentially disturbing effects in national data.

Nothing is simple in all this. For example, the newly imposed tariffs on Canadian timber products are credited with raising US lumber prices by 20 percent. But it turns out that one of the largest lumber producers in the American Southeast is Interfor, a Canadian firm.[8] The tariff on Canadian lumber is mostly falling on the backs of American consumers and, ironically, filling the coffers of a Canadian company.

The news keeps flying in the face of protectionist rhetoric. A $500 million Volvo manufacturing plant that will employ about 5,000 American workers is soon to start operations near Charleston, SC. Volvo is no longer Swedish; it is a Chinese company, and the plant was paid for by Chinese firms and lenders that sell products and financial services to the United States. The new jobs and boost to economic activity from this plant are the spillover effects of what economists call gains from trade; South Carolinians can thank the last three decades of good trade relations with China.

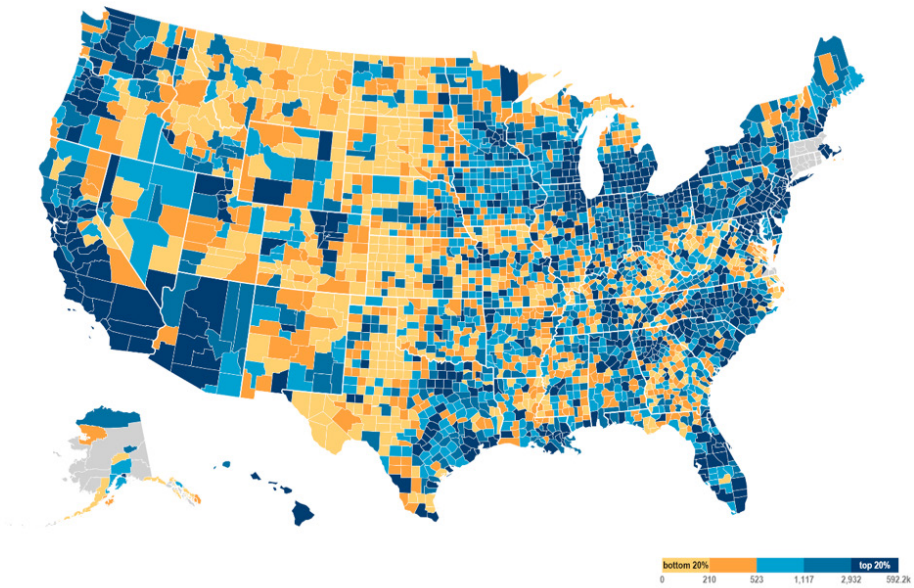
That even the well informed have difficulty identifying firm nationalities is not surprising. No one can say with certainty who owns what in this world. Yes, firms may be legally domiciled in a particular country, but their ownership by way of stock investment is constantly changing. What may be a majority-US-owned firm today can become a majority-Indian-owned firm tomorrow. Keeping track of product nationality is just as confusing. When President Trump says Americans are buying too many German cars, is he speaking of Mercedes made in Alabama, BMWs produced in South Carolina, VWs from Chattanooga, or what?[9] Would it be better to be buying Buicks made in China or Jeep Renegades assembled in Italy? Or is the president just interested in cars produced in Rust Belt states?

But while nothing is simple when trying to trace the effects of tariffs, it turns out that there is a straightforward way to observe which US counties, states, and regions have the greatest risk of unemployment from tariffs. Using US Commerce Department 2017 data, the National Association of Counties has produced a map (see figure 1) that identifies the employment count of workers whose jobs depend on exports.[10] In a bitter trade war, these are the high-risk counties.

Examining the data generates some interesting observations. North Carolina and South Carolina, for example, are high-exporting states and two of the strongest state economies east of the Mississippi. County levels of export-supported employment are spread at a high level across the two states. In 2017, North Carolina's three leading export destinations were Canada, China, and Mexico. South Carolina's top three were China, Germany, and Canada. The Trump administration has had few kind words to say about any of these countries. The response from those countries will not be painless for the Carolinas.

A quick look at the northeastern quadrant tells us that West Virginia has little to worry about when it comes to export-supported employment, but Pennsylvania, Ohio, Indiana, and Michigan are not so secure. It turns out that these four states share the same top three country export destinations of Canada, Mexico, and China—again, three countries that are the target of the president's wrath.

Figure 1. 2017 International Exports: Total Export-Supported Jobs



Source: National Association of Counties, "2017 International Exports: Total Export-Supported Jobs," NACo Counties Futures Lab, accessed August 24, 2018, https://explorer.naco.org/index.html?dset=International%20Exports&ind=Total%20Export-Supported%20Jobs.

It's interesting to recall that the 2016 election was decided by by voters in West Virginia, Pennsylvania, and Ohio. The map suggests that two of those states would have a lot to lose in an all-out trade war. Saying this, however, is not the same as saying that Trump's protectionist antics are a political mistake. Public choice scholars teach us that smaller, highly organized interest groups are far more powerful than larger, more highly dispersed groups. In other words, the so-called forgotten men in the nation's Rust Belt can still be successfully served by this president even if it means putting lots of other forgotten workers on the street, sometimes from the same state and region.

WHERE'S THE FED HEADED?

For more than a year, Federal Reserve leadership has outlined a plan to gradually raise interest rates and has begun to execute it. Already in 2018, the Fed on three occasions has nudged rates higher by 25 basis points. Recently, Trump made it clear that he was not happy with the Fed's plans to continue to raise rates.[11] While sounding off, he noted that the Fed, after all, had to do its job, and it should make its own determination.[12] In its August 1 meeting, the Federal Open Market Committee did not raise rates, but it sent signals suggesting that we would see increases when the committee meets again in September and December.[13]

A few weeks before Trump's stated disagreement with the Fed, Larry Kudlow, President Trump's chief economic adviser, thought prudent to weigh in: "My hope is that the [Federal Reserve] under its new management understands that more people working and faster economic growth do not cause inflation."[14] Kudlow was indirectly urging the Fed not to raise interest rates to slow the economy out of fear that higher growth alone would lead to rising prices.

The Fed pays interest to banks on their excess reserves to the tune of 1.95 percent annually. Given that this Fed-offered rate is 100 percent guaranteed, banks will not lend money unless they can earn more elsewhere. Market interest rates, as opposed to Fed-determined interest rates, are rising now, and there is a wee bit of evidence that banks have increased lending as a result. But as of now, it doesn't appear that increased lending is putting "too much money" into our economy.

Finally, what about the Fed and further interest rate increases? From where I sit, I am convinced the Fed will continue to raise rates, perhaps twice more in 2018 and several times in 2019. My opinion rests primarily on the old-fashioned logic that the Fed moves when inflation heats up, and that is what is happening now. All measures of inflation—the CPI, PPI, and the Fed-preferred Consumption Expenditure Price Index—are bouncing along a positive trend. Each of these, with food and energy removed, has broken through the Fed's 2.0 percent inflation bright line. Rates can be expected to rise by half a percentage point by the end of this year and by at least that amount again by June 2019.

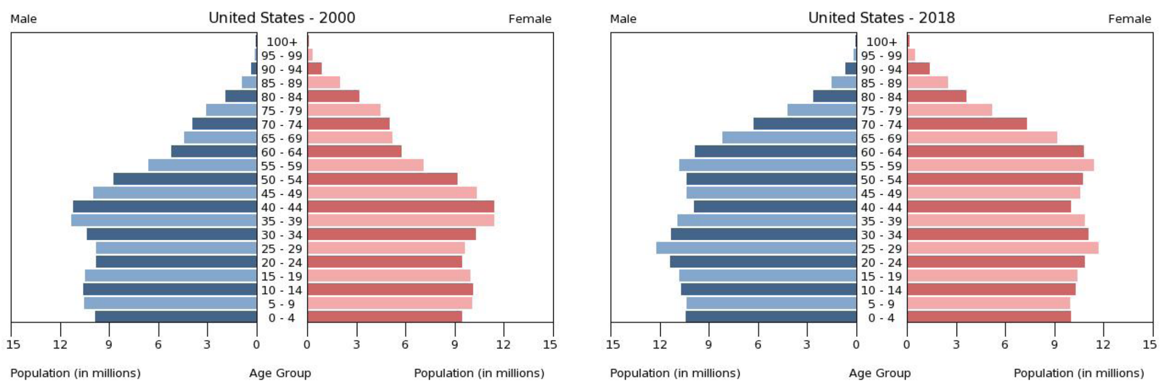
IMMIGRATION AND HAPPINESS

Population growth is a major driver of economic growth but not necessarily of prosperity. A stagnant population that merely replaces itself can prosper from technical progress driven by a creative working population. But birth rates and movements of people across states, regions, and countries can change a population's age distribution, making it older or younger and therefore affecting the size and experience of the labor force that goes to work each morning. The United States and the United Kingdom stand out in the Western world as countries that are not aging rapidly. High levels of immigration have brought a younger population and a higher birth rate. But the United States nonetheless has an aging population, which is another way of saying that the post-65 group is getting much larger. So where does all this demographic change take us in terms of economic growth?

In a recent study on the effects of aging on economic growth using data for 168 countries from the years 1990 through 2014, three economists found that the rising tide of senior citizens is really good news.[15] We just did not know that senior citizens save considerably and that those savings finance investments that boost GDP growth in the long term. As with all good things, there are limits, but the future of the US economy now looks brighter as its population becomes older.

We can see this in two accompanying US Census Bureau population pyramids, which show the US population's age distribution for 2000 and 2018 (see figure 2).[16] Notice how the younger population component has been maintained across the years as the over-60 population has grown. Then consider more closely the aging process that accompanied the apparent flow of younger people. In 2000, the larger population component was in its late 40s. In 2018, the larger population component is in its late 20s. One should not expect the associated labor force to be as productive, due to lack of experience, nor average wages to be higher. This, in fact, is what has happened. Wages have stagnated during the 18 years covered by the chart, and labor productivity has plummeted.

Figure 2. US Population Age Distribution, 2000 and 2018



Source: US Census Bureau, "Population Pyramid Graph - Custom Region - United States," International Data Base, last updated August 2017, https://www.census.gov/data-tools/demo/idb/informationGateway.php.

Perhaps these considerations offer some insights into the nation's economic situation, but can these population pyramids tell us anything about the nation's happiness? Well, as far-fetched as this may seem, economic research on human happiness tell us that we can draw some useful inferences from the pyramid data.[17] The relationship between self-reported happiness and age can be seen as a curve that begins at age 22 with a high level of happiness but sinks until around age 55. From that point on, the curve rises. Self-reported happiness is typically at its highest level in people in their eighties. And happiness changes behavior.

Happiness research also tells us that as people move into their early 60s and 70s, they become more satisfied with life, less stressed, and, one might say, less ambitious. Accordingly, we should expect the US population to be less mobile and less inclined to take risks. I am inclined to believe that these changes, all else held equal, contribute to lower levels of GDP growth. We should also expect these tendencies to become more dominant as the population ages and immigration flows are reduced.

There is another group of people who should figure into our happiness discussion. Immigrants who come seeking a better life for themselves and their families are also looking for happiness. When they make it and are allowed to stay, we should expect self-reported human happiness to receive another positive nudge.

ILLINOIS IN THE STATE SPOTLIGHT

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Each quarter, we select one state and assess that state's economic outlook and health. Last quarter, we put Utah in the spotlight. In previous quarters, we have examined Colorado, Kentucky, Michigan, North Carolina, and Oregon. We focus on Illinois this quarter.

Illinois's economy is struggling, and many descriptive statistics exist to support this claim. For example, the state's personal income grew by 1.9 percent in 2017, well below the 3.1 percent average across all 50 states. Illinois's 5.0 percent unemployment rate in 2017 was also above the national average of 4.4 percent.[18] In addition, US Census Bureau data show that Illinois is one of only three states since 2010 that has experienced a population loss. Illinois's labor force numbers also paint a bleak image; the labor force size and participation rate both declined in 2017.

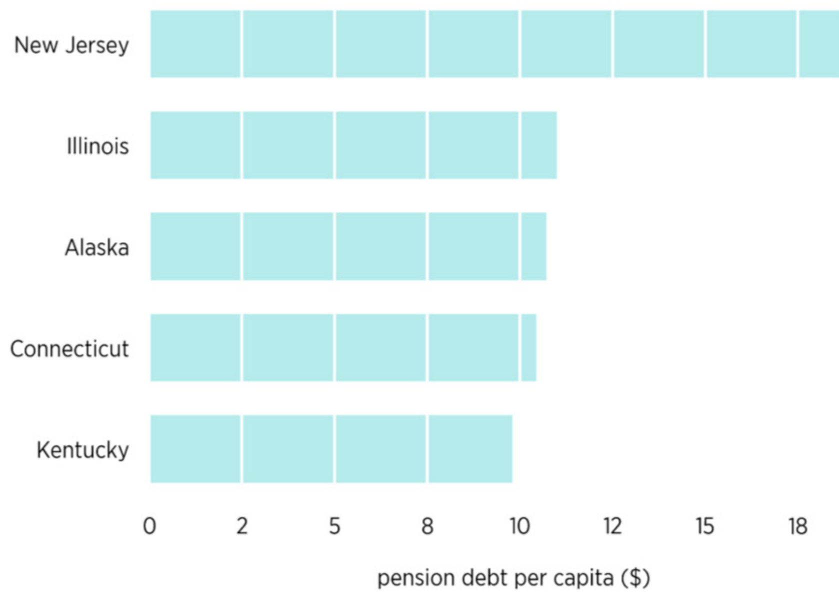
A looming menace for the economy of Illinois is its large state debt. Combining state and local debt, Illinois's debt total is 19.08 percent of its GDP—the eighth-highest ratio of the 50 states.[19] This debt is primarily caused by spending (or promised spending) on pensions, healthcare, and education. Pension debt is without a doubt the most prevalent concern, over $141 billion as of 2016. The 50-state average for 2016 was $27.1 billion.[20]

Using Pew Charitable Trust data, figure 3 shows the most notable states with high pension debt.

Pensions might not be the only reason Illinois finds itself in a fiscal crisis. A recent *Forbes* article found that over 63,000 Illinois government employees are bringing home salaries over $100,000.[21] In fact, the same article found that 84 small town "managers" are out-earning every single US state governor. A *Chicago Tribune* article interviewing Illinois governor Bruce Rauner suggests that the public-sector unions' power may be driving the plum jobs.[22] States in close proximity to Illinois, such as Wisconsin, have recently fought political battles against unions in an attempt to limit their influence on the fiscal budget. Even though these political battles can be drawn out, the benefits of achieving a sustainable fiscal deficit may translate into a net gain for all the citizens of the state.

Perhaps the most telling statistic for Illinois's perilous financial situation is seen in the state's credit ranking. According to Ballotpedia, Illinois received a BBB− credit rating in 2017, the near equivalent of a junk ranking. No other state has this low a credit rating. Standard and Poor's Global, Inc., a leading international market intelligence organization, cited Illinois's lack of a state budget for over two years as a driving force for the poor rating.[23] However, even when Illinois passed a budget in July of 2017, Standard and Poor's chose not to raise Illinois's rating—implying that there are other contributing factors to the poor rating. This is unsurprising since Illinois has been receiving continually decreasing credit ratings since early 2009.

Figure 3. States with the Most Pension Debt per Capita in 2016



Source: Author's calculations based on data from Pew Charitable Fund, http://www.pewtrusts.org/en/research-and-analysis.

The Mercatus Center's state fiscal rankings draw similar conclusions about Illinois's financial situation. The state fiscal rankings capture the fiscal health of every state by examining debt, obligations, solvency, healthcare benefits, and other financial indicators.[24] In 2017, Illinois ranked 48th out of the 50 states. This is a slight improvement over previous years, but Illinois still remains one of the five least healthy states financially. Illinois faces some difficult future decisions, as the state will need to raise taxes and cut spending to regain financial control.

But all is not bleak. There are some areas of strength that offer hope to Illinois citizens. As recently as June 2018, Illinois has shown some positive signs of employment growth. In June Illinois added over 18,100 jobs, an increase of 0.3 percent in total employment, well above the average growth of employment across the United States.[25] In addition, the Supreme Court's ruling in *Janus v. American Federation of State, County, and Municipal Employees* is already helping to cut through the heavy grip of unions in Illinois. This decision allows individuals who decline to join a union to avoid paying union fees. The research center Illinois Policy has identified over 1,350 employees from Chicago and Cook County that have been freed from paying forced union fees.[26]

Education is also becoming a bright spot for Illinois. The state ranks above the national average for high school graduation rate. The national average is 84.1 percent, whereas Illinois sits at 85.5 percent.[27] Higher education is also an area of strength for Illinois. For individuals over the age of 25, Illinois ranks above the national average for percentage of bachelor's degrees and very advanced degrees (MBA, PhD, or MD) in the state's population.[28]

Illinois's economy is also showing promise in some of its largest metropolitan areas. Chicago, Illinois's largest metropolitan area, is showing growth in GDP per capita and a falling unemployment rate.

According to Department of Commerce data, the Chicago metropolitan area produced $59,810 real GDP per capita in 2016. This is the highest GDP per capita out of any metro area in Illinois, and it is the 32nd highest out of metro areas in the United States.[29] In addition, the Chicago metropolitan area has had three straight years of GDP per capita growth. Chicago has also seen a dramatic improvement in its unemployment rate, which topped out at 12 percent in January 2010, according to BLS data. As of April 2018, that number is down to 3.6 percent.

The metropolitan area of Kankakee is also showing promise for the state of Illinois. Even though Kankakee has one of the lowest metropolitan area GDP per capita numbers in Illinois at $31,942, the metro area has seen 9.95 percent aggregate GDP per capita growth since 2012. This is the largest metropolitan area growth across Illinois. In addition, Kankakee has also dramatically reduced its unemployment rate from 14.7 percent in January 2010 to 4.2 percent in April 2018.

Illinois's Regulatory Outlook

Illinois's regulations are published in the *Illinois Register* and can be found dating back to 2002. As of June 2017, the official administrative code has 33 titles that are labeled very similarly to the titles found in the US *Code of Federal Regulations*. The 2017 edition of Illinois's code contained over 15 million words and 259,832 restrictions as defined by the RegData project at the Mercatus Center.[30] Reading at a rate of 300 words per minute during a 40-hour work week, it would take an individual close to 21 weeks to read Illinois's entire code. Out of the 24 state codes that have been analyzed by the Mercatus Center, Illinois has the second-largest code, measuring by both restrictions and total words. In fact, Illinois's code is almost three times larger than Arizona's code, which has a little over 5.6 million words and 63,919 restrictions.

RegData also identified the most regulated industries in Illinois based on Illinois's state code. The top five are chemical manufacturing (22,128 restrictions), food manufacturing (12,001), animal production and aquaculture (5,971), crop production (4,308), and nursing and residential care facilities (3,070).

Chemical manufacturing, the most regulated industry in the state, is affected by 8,871 state regulatory restrictions. These are primarily environmental regulations. There are also heavy chemical industry regulations that are categorized under "Public Health" and "Agriculture and Animals."

We note that chemical manufacturing is also heavily regulated at the federal level. These regulations have a disproportionate effect on Illinois's economy. Calculated using RegData metrics, a state's FRASE score measures the weight of federal regulations on a state's economy relative to other states.[31] The 95,568 federal regulations in the chemical manufacturing industry are responsible for 9.4 percent of Illinois's FRASE score, a higher percentage than any other industry.

Conclusion

Even though Illinois faces some daunting financial and regulatory challenges, some economic indicators provide some hope. The leading indicator published by the Philadelphia Federal Reserve Bank predicts the success of a state's economy over the next six months. Illinois's April 2018 indicator is 2.99, a relatively high number—outpacing the national average of 1.54.[32] The New Economy Index produced by the Information Technology and Innovation Foundation provides a broader assessment. Its most recent report shows that Illinois ranks 16 out of all of the states with respect to knowledge jobs, economic dynamism, globalization, digital economy, and innovation capacity.[33] This suggests the state is set up moderately well for the future, at least in the above-mentioned areas. If Illinois can reduce its debt, restore its credit rating, and reduce its regulatory burden, the state could have better economic years in the near future.

YANDLE'S READING TABLE

For those who are looking for a delightfully well-written, (most likely) personally relevant review and discussion of happiness research, the choice is obvious: Jonathan Rauch's *The Happiness Curve* (New York: Green Tree, 2018). But in the interest of being completely candid, I must admit that it was the author's reputation, not the topic, that attracted me to the book. In fact, until now, I was a happiness curve sceptic. I just didn't assign a lot of scientific value to work based primarily on self-reporting surveys, especially for something as ill specified as happiness. I am no longer a sceptic but am persuaded that repeated experiments tell us something real is going on.

A Brookings Institution senior fellow and regular writer for *Atlantic* magazine, Rauch displays a passion for understanding human nature and a personal desire to understand why, over the past 15 years or so, countless empirical studies of reported human happiness (and even reports on apes and chimpanzees) report a strong central tendency for self-reported happiness to begin at a high level for young adults, to fall to the lowest lifetime level around 50 to 55, and then rise to the highest lifetime level in the 70s, 80s, and beyond. And this statistical finding—the so-called happiness curve—persists for people across countries and cultures even after adjusting for lots of variables that might logically explain the pattern.

Simply put, there is an aging effect that will not go away. Rauch's treatment of the topic—with repeated warnings that the discussion involves central tendencies that may not apply to each and every individual—contains discussion of his own surveys, fascinating case studies, as well as interviews with some of the leading scholars in sociology, psychology, and economics who have pioneered on the topic.

The book begins with an inspired discussion of Thomas Cole's 1842 multipanel painting *The Voyage of Life*. A romantic depiction of the ages of man as portrayed by an individual floating or sailing along a changing river, Cole's painting, like the happiness curve, starts off pleasantly, declines in conjunction with stressful challenges, hits a nadir, and then portrays an almost heavenly ending where the aging subject seems relaxed, filled with gratitude, and happy. Rauch then explores research findings and personal discoveries with regard to what makes us happy and what doesn't. From there, the book embarks on what is actually a review of happiness research literature, but one that is so well disguised by delightful writing and reports of encounters with professionals and scholars that one wants to read slowly or go back and start again. Throughout the book there is a recurring problem: science is unable to explain the happiness curve's middle-age decline. Or, put in Rauch's preferred terms, science cannot explain the acceleration of happiness that occurs beyond middle age. Half empty or half full?

Rauch is not reluctant to end his book with discussion of some lessons gleaned on the topic, what he and others call wisdom.

Devin Leonard's *Neither Snow nor Rain* (New York: Grove Press, 2016) came to mind in mid-April, when President Trump issued an executive order initiating a review of the US Postal Service's (USPS's) financial health. The order followed a series of Trump tweets and other complaints directed toward Amazon's heavy use of the postal service for delivering Amazon packages on their last mile to destination.[34] According to Trump, the American people are subsiding each package delivered to the tune of $1.50 per person per package. Seen this way, Amazon was raking in a few billion every year courtesy of the American taxpayer.

Seen another way, however, the Amazon deal, which was of course approved by the Postal Service regulators, provided positive cash flow for covering a looming mail deficit that has emerged with the rise of email and associated disappearance of first class mail. This, along with congressional mandates requiring the USPS to make advance payments against future retirement benefit liabilities, has generated lots of red ink.

Leonard's delightful USPS history reminds us that the post office delivers 513 million pieces of mail each week, 40 percent of the world's total volume, and this done by carriers on foot, in trucks, by mule train, and even by dogsled, as the agency carries out a federal mandate that mail will be delivered to every American address. We are also told that the USPS delivers more items in just nine days than FedEx brings in a year, and it does all this with greater efficiency than any other country's letter carrying service, as measured by items delivered per person.

In spite of all this "gee whiz" information, Leonard's account explains that in spite of the difficult politics involved with reorganizing the nation's second-largest workforce, exceeded only by Walmart, USPS has still closed post offices and process plants and laid off workers. In 2014, Leonard tells us, the service had 617,000 employees. Fifteen years earlier, the headcount was 905,000.

But what about Trump's Amazon ire? Is this something new in the USPS story? Hardly. The USPS story, which begins in 1792, has constantly reflected special-interest efforts to steer the postal service in one direction or another. In the early days, the struggle involved thousands of small post offices that were located in general stores or which became general stores. Efforts to move to stand-alone buildings or consolidations generated an outcry from the small businesses that were subsidized by postal patrons. Then, more in line with Trump's Amazon concern, the rise of Rural Free Delivery, first tested in 1891, and later the 1912 addition of parcel post, made it possible for Aaron Montgomery Ward and, later, Richard Warren Sears and Alva Curtis Roebuck to build vast mail-order empires that wiped out local retailers while enabling farm families to enjoy access to an array of goods previously seen only by city folks. All along, Uncle Sam and users of first-class mail were supporting the rural expansion.

In 2013, Leonard tells us, the USPS failed in its attempt to convince Congress to allow Saturday closings for all post offices. While postal services in other countries were cutting back scheduled deliveries, moving mail service to retail establishments, and adopting smartphone technologies for sending and receiving postal mail, the United States forged ahead. That year total mail volume fell to its 1988 level, and the USPS defaulted on a scheduled $5.6 billion payment to retiree health benefit accounts. Package delivery offered the one ray of sunshine: the USPS was delivering packages for FedEx and UPS.

Then, in late 2014, the USPS struck a deal with Amazon to make Sunday deliveries. The resulting volume led Amazon to build 15 sorting centers for moving their package flow to post office trucks for the last mile trip to the Amazon customer. Best estimates indicate that the USPS handles 40 percent of Amazon's packages, roughly 140 million, which is more than either UPS or FedEx carry.

Trump's call for a USPS review is logical and timely, but not just because of the Amazon pricing question. As Leonard points out, the real question faced by the nation relates to what will become of a money-losing letter carrying service that has not been allowed to adopt the latest technologies for transmitting person-to-person information to the American people.

Neither Snow nor Rain is timely and entertaining.

According to Ian Bremmer, author of *Us vs. Them: The Failure of Globalism* (New York: Portfolio/Penguin, 2018), those troubled by a divided US Congress unable to come to grips with immigration and healthcare policy, or even to approve agency heads that keep government wheels turning, are dead wrong if they think the problem is just about Republican and Democrat political differences. No; according to Bremmer, the fault lines that separate us are far deeper, more troubling, and international in scope. The issue, to him, is globalism and how the emerging world economy has distributed gains and losses across identifiable workers, communities, and even nations. The result, he believes, promises a long period of rough sledding that will likely leave some countries seriously bruised.

Having written on *The End of the Free Market* in 2011 (New York: Portfolio), which he characterized as a struggle between multinational corporations and states, Bremmer's take on 2018 comes early in his provocative 198-page-long book. Referring to the populists who helped usher in the Trump administration, Bremmer says,

> We can attack these populists, mock them, or dismiss them, but they know something important about people they're talking to, and they understand that many people believe that "globalism" and "globalization" have failed them. These would-be leaders have a talent for drawing boundaries between people. They offer a compelling vision of division, of "us vs. them," of the worthy citizen fighting for his rights against the entitled or grasping thief. Depending on the country and the moment, "them" may mean rich people or poor people, foreigners or religious, racial, and ethnic minorities. It can mean supporters of a rival political party or people who live in a different part of the country. It can mean politicians, bankers, or reporters. However applied, it's a tried and true political tool. (2)

In making his case, Bremmer draws on the work of his Eurasia Group, a unit described as a leading global political risk consulting organization. Yet, in a way, his book is a timely supplement to Thomas Friedman's 2005 *The World is Flat* and the earlier 1999 *The Lexus and the Olive Tree*. Friedman pointed out that once the world got fully connected with fiber-optic cables, super freighters, and the World Wide Web, there was no place to hide. Whether you are a soybean farmer in Brazil or Bulloch County, GA, a textile worker in Bangladesh or Greensboro, NC, or a steel worker in China or the United States, the result is the same: world competitive forces and related political deals determine your life's destiny. Out-of-work US blue collar workers and West Virginia coal miners, for example, became the "us" in Bremmer's "us vs. them." And who became the "them"?

"Them" are the winners in the great globalism contest, those equipped to turn knowledge into wealth. Along with these came another group of winners, the successful rent-seekers who knew how to gain wealth-making (at least for them) political favors. But now, according to Bremmer, the bruised and forgotten ones are finding champions who are responding to their troubled concerns. Both real and figurative border walls are rising, the flow of foreigners across national borders is being cut, and nationalism is having a field day.

Bremmer does more than talk about globalism's politics. He identifies and analyzes the future fortunes of 12 leading countries that, in one way or another, are troubled by globalism's grim reaper. These are Brazil, China, Egypt, India, Indonesia, Mexico, Nigeria, Russia, Saudi Arabia, South Africa, Turkey, and Venezuela. Although his analysis is more acute than his remedy proposals, Bremmer's antidote to anti-globalism is still worth considering. Somehow, as he puts it, a new social contract will be formed that brings the troubled ones to the political table. Any political party that fails to understand this, in his view, will have a dim future, indeed.

Bremmer's book is a quick read and is well worth the effort.

ABOUT THE AUTHOR

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