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A Tale of Two Americas: Why Is That a Surprise?

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The data are now abundant and clear. The political commentariat has weighed in with a cacophony of explanations. A number of previously comfortable politicians are hearing from their constituents—not always with the accustomed passivity. It seems that everyone is surprised to learn that there are two Americas. More surprising is the fact that rural life—idealized for its calming sensitivities and neighborly good-will—is a place of anger, local political conflict, and wide-spread alienation. Many rural residents are mad at each other, and they are mad at those who live in the throbbing metropolitan core of American capitalism. Actually, it is a surprise that everyone is surprised.

Much of the associated conversation is a re-hash of familiar symptoms. It is time to explore reasons. I will start with the simplest possible reason. A market economy—so fundamental to America's sense of its own exceptionalism and presumed destiny—is only as good as the many necessary assumptions (conditions) that justify its goodness. Let me explain. A market economy cannot work properly unless all participants in that economy—consumers, firms, and workers (let us call it labor)—can be described by a set of very exacting conditions (traits). And if a market economy does not work properly, the various market outcomes are politically indefensible. Markets are not ends in and of themselves—they are instrumental to socially desired outcomes. Examples are the incentives for hard work, for personal gain, for an abundance of consumer products that seem to satisfy our wants, and for a production and distribution system (firms) that responds to competitive pressure by carefully watching its costs and efficiency so that it can produce for us at the lowest possible prices. Labor fits into this system by providing necessary human skill (and often drudgery) in exchange for an income that then allows consumption of goods and services on offer. The circle is closed.

But of course these happy outcomes do not just arise by chance. I am not talking about the "street" version of economic performance—the most simplistic of which is the latest information about the Dow Jones Industrial Average (or the Nasdaq index). These tell us nothing at all except the dubious consensus of a small class of traders who are themselves only average at prediction. Nor am I talking of the monthly data on job creation, or—the most useless measure of all—the latest GDP numbers. Economists are not interested in these common measures because we have a lot in common with medical doctors: We are less interested in how a patient "feels" than we are in the underlying workings of a complex process that is entirely dependent on a set of necessary preconditions. Just as a doctor is concerned with the chemical composition of our human system, an economist is concerned with the necessary functional attributes that make an economy work well—or not work well at all. Let us briefly consider those necessary functional attributes of a market economy that assure economists that it is working well.

The first requirement is that all participants—producers, workers, and consumers—are in possession of *perfect information* about all of their most advantageous strategies and that they stand ready to act on that perfect information. This means that consumers know exactly which of their consumption choices are optimal—which camera offers the best performance for its price. This also means that workers have perfect information about their employment prospects and are prepared to act on that perfect information. It means that owners of firms have perfect information about alternative production technologies, about the suitability of every one of their employees, and about the market conditions for what they wish to produce. If the enormity of these informational requirements for proper market performance are not obvious, perhaps the paragraph might be re-read—slowly. Anyone who believes that any of these necessary conditions can be found in *any* market economy is naïve. So much for the claimed wonders of a "free market." All market economies work badly—some just work less badly than others.

Embedded in that previous list of necessary functional traits is an assumption of complete mobility of labor and capital that goes into producing the goods and services we think we need. In simple terms, if a worker finds that she can make $1.59 more per hour by quitting her current job and taking one across town, schedule changes, family commitments, and lack of transportation must be factored in. Suddenly, the idea of "complete mobility" is suspect. Now assume that this person just lost her job because her employer closed and moved to Vietnam (or Vermont). She learns of a job in a town 9 miles down the road, but if she is unable to make that adjustment, and there are no other job prospects in her locale, she is stuck. Economists call this *stranded labor*. Perhaps comfortable urban residents will look in on this example of unemployment and denounce the woman for being insufficiently motivated, or as possessing some other presumed defect. But she is not well served by the market economy available to her. Labor is not the only productive factor stranded by economic change. Assume that a local firm providing a specialized product to the firm that just moved to Vietnam suddenly realizes that it has lost the market for some large share of its own production. If that supplier is now forced to close its doors, considerable unemployment results, and we have both stranded labor and stranded capital (the building and equipment that now has no use—and no value). From an economic perspective, adjustment is most certainly not costless. Market economies, to deliver acceptable performance, require that all adjustment are generally "costless." Notice in the above examples that there may be no possible adjustments to be chosen. If you cannot move, you are *choosing* to stand still. And a market economy is about the ability to choose. We hear much about being *free to choose*.

I could list a number of other necessary conditions for the performance of a market economy to be considered socially good. I will limit myself to only one of those conditions. A central component of a market economy is that rewards to labor and management (often this means owners) are themselves deemed to be justified by the same set of functional assumptions covered in the earlier discussion. In the simplest terms, people earn (are paid) what they are worth and that worth is determined by the very same process that guides the above discussion of efficient production. A market economy gains its hold on our affections because it is presumed to solve several vexing problems at once. To repeat, the market economy provides us with the goods and services we want, it does this at the lowest possible cost (thus saving consumers money), and it then distributes the presumably correct rewards (incomes) of that efficient production system in the correct (unbiased) manner. This is what motivational speakers and other dispensers of feel-good seminars would call "win-win-win."

But of course reality intrudes. The fact that an MVP quarterback in the NFL is paid $22 million per year, while an elementary school teacher is paid $33,000 per year (and often must purchase necessary school supplies for her students), might cause thoughtful people to wonder about the overall performance of the American market economy. Are employees *really* paid what they are worth? And here I do not mean worth to their employer, but *worth* in the larger sense of value to society. The point here is not to pick on superstar athletes, or entertainers, or even hedge-fund gurus. The salient point is that much of the basis for a sense that there are "two Americas" arises because many people notice disparities such as this and wonder whether or not the market economy brings about incomes that can be called fair. Of course the word *fair* invites reflection. And that reflection will always return to one single question—is the market economy *working* well for me (and my family and those I care about)? If the question is answered in the affirmative, that individual is happy with the market economy and its current outcomes. If the answer to that question is negative, then the market economy (and its outcomes) is somehow flawed. Now the judgment of good outcomes shifts from what economists might say and becomes a judgment rendered by the citizenry. And that judgment is rendered not just by the winners in the metropolitan growth centers of America but in all corners of the country where those less well served can be found. The 2016 election revealed a very large number of such individuals.

Notice that I have not yet mentioned politicians. I have avoided doing so because the problem of two Americas is only secondarily a political problem. It is first and foremost an economic problem. That is, all of the results and performance attributes start with adherence to a market economy and our presumptions about what it will do for us. Notice that you cannot have a market economy without first having a *market culture*. This means that we—

every last one of us—are embedded in a market culture. A fish is not aware that it is swimming in water, and most Americans are not aware that we live in a market culture. This means that if certain politicians have a hard time addressing the perceived flaws of current market outcomes, it is because—like the rest of us—they cannot imagine that a market economy might fail to deliver the very best of all possible outcomes. Most Americans have been raised on that assertion—it is culturally embedded. How often do we hear celebration of America as a "free-market" society?

It is useful to think of a market economy the way we think of meatloaf. There is not a single meatloaf (or a single market economy)—there are hundreds of varieties. Swedes are aghast at the American version of a market economy, and many Americans cannot possibly imagine living with the Danish version. But what about the very successful German version? We love the meatloaf we grew up on. Once the honeymoon is over, serious discussion gets underway—your mother's meatloaf or my mother's meatloaf? Some couples take turns, every other Sunday one of them gets the proper version. But here the similarity ends. There can only be one version of meatloaf. The problem of a divided America is that a large number of individuals—the majority of whom live in rural areas—cannot stand the meatloaf that is on offer. It simply does not taste right.

Chronic Stress, Acute Duress

The year 2009 was the first full year of the worst economic crisis since the Great Depression of the 1930s. Every honest economist insisted that we needed a massive fiscal initiative—a stimulus program—to remedy the crisis and to launch the economy on the road to recovery. Whether the actual stimulus package was too small or too large need not concern us here. What matters is the nature of the economy since 2009—because that explains the election in 2016.

In the two or three decades prior to 2008, median household incomes in America, corrected for inflation, had been generally stagnant. Everyone knew that the top of the income distribution was doing well but that the majority of families were "treading water." For many households this was unpleasant but tolerable. American families are notoriously deficient in saving for retirement and old age. But they have a profound ace-in-the-hole—their home. It was one thing to lose your job—a problem mitigated by the large number of two-income households. According to the Pew Research Center, over 60% of households had two earners in 2012. In many rural areas, one of those workers was in the labor market to gain access to family health insurance. These individuals were most often employed in the public sector. If a husband lost his job, his wife might still have employment (and health insurance) at the local library, school, police department, hospital, or county courthouse. In many respects, the financial disaster was more of a *wealth* crisis than an *income* crisis. Over 7 million families lost their home through foreclosure—often precipitated by a somewhat ravenous mortgage market liberated from culturally defined "burdensome regulations." By 2009 it is estimated that approximately 11.6% of homeowners were technically "underwater"—meaning that the owner owed more on the mortgage than the appraised value of the home. Just two years earlier, in 2007, the comparable figure had been 4.7% (Carter & Gottschalck, 2011). The difference over just two years is striking. Suddenly treading water was profoundly troubling. When, millions of families wondered, would the next wave wash over them?

Whither Rural Tranquility?

I am motivated here by the unfortunate conversation about rural voters that paints them as somehow defective in their grasp of a modern economy. Actually, it turns out that they are the only people in America perceptive enough to understand the fundamental flaws in the American version of a market economy. They are sensitive to it because it has left them in the economic hinterland. They would be reluctant to phrase it precisely that way, but that is the only honest way to assess the damage of contemporary "political economy" in America. It is not just a political problem—it is first a profound economic problem. The American market economy works wondrously for those living in the hot-spots of metropolitan America—especially if they have the mobility, the near-perfect information, and the confidence to follow the money. The American version of capitalism is tailor-made for them. But a market economy must be held to a standard of *fairness* that is sustainable and agreed to by all, not just the winners. The philosopher John Rawls had a compelling thought experiment—the relevant Rawlsian question is: What sort of a market economy would you defend from behind a Veil of Ignorance that prevented you from seeing beyond the Veil, but which once removed, would place you in a metropolitan hub of economic vitality or in a rural town in the middle of a stunning prairie? Your economic prospects are profoundly different, but not because of any personal flaws on your part. The difference comes from the failure of current American capitalism—the only market economy (meatloaf) available—to offer hope for too many people in too many places.

America's rural residents have told us in the plainest language available in a democracy that they can no longer defend the market economy that now haunts them with abandonment. They have been badly served by the American version of a market economy—and by the cultural and political climate that continues to worship at the altar of "free markets." Rural residents are abundantly aware that this particular market economy has little use for their apparent immobility, for their commitment to a place of quiet reflection, and to their desire to hang on to an idealized past that has always been slipping into the distance as if viewed in a rear-view mirror. The importance of the Electoral College in awarding the presidency to Donald Trump can now be grasped—all places and all residents in this enormously variegated economic landscape matter. Urban beneficiaries of the current system will tell rural individuals to get over it. Others, with more wisdom, will ask what corrective surgery might help to make the culturally revered instrument—the American market economy—that has produced such widespread feeling of abandonment and alienation work better?

For More Information

Carter, G. R., III, & Gottschalck, A. O. 2011. *Drowning in Debt: Housing and Households with Underwater Mortgages.* Washington, DC: U.S. Census Bureau, Working paper, June. Available online: https://www.census.gov/programs-surveys/ahs/research/working-papers/Drowning_in_Debt.html

Additional Information

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