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King Ludd in the 21st Century

By: Parikshit Ghosh

Trump seeks to disrupt the old order with policies that he promises will reverse the fall in labour's share of the American pie. But these inchoate actions also threaten the size of the pie. The march of the far-right can be halted only if the issue of extreme inequality is addressed upfront.

For Democrats, losing one election to Donald Trump may be regarded as misfortune; losing two looks like carelessness. The coronation of an American demagogue in 2016 felt like an accident; his defeat in 2020 seemed to signal the world is returning to normalcy. The 2024 election results showed that the Trump phenomenon has deep roots in American society and cannot be dismissed as a passing storm. We need a unified theory of Trumpism.

During the 2024 presidential campaign, [opinion polls](#) reported the economy as the number one issue for voters, on which Trump enjoyed a [consistent lead](#). Trump is no policy wonk; his attention span and eye for detail are notoriously limited. When asked pointed questions on specific policy issues like childcare, he tends to dish out a word salad. He does enjoy an [exaggerated reputation](#) as a wily businessman, but that is hardly the key to political success. If business credentials, real or imaginary, were enough to propel an American politician to the status of an economic messiah, Mitt Romney or Michael Bloomberg should have sailed through to the White House.

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Trump's appeal on the economic front lies elsewhere. He emerged on the scene as a voluble, modern-day Luddite. [The Luddites](#) were agitating workers in early 19th century Britain, who smashed machines that were poised to replace them. They were inspired by the eponymous Ned Ludd, sometimes mockingly referred to as King Ludd. Today, Luddites are perceived as irrational reactionaries who stood against progress, but were fighting to preserve working-class interests of their own generation. Shift to factory-based production had caused widespread skill obsolescence and job loss early in the Industrial Revolution, [deepening poverty and inequality](#). The benefits only started trickling down decades later.

Calling Trump a Luddite may sound paradoxical, given that tech billionaires like Elon Musk, Peter Thiel and Marc Andreessen are among his chief financiers and cheerleaders. The MAGA movement does not rage against the machine; it wields its pitchforks against elites and foreigners. I use the term not in its literal sense, that of a technophobe, but as a disruptor who tries to halt improvements in general welfare to save the victims of its collateral damage. As I will argue, Trumpism's crusade against trade, immigration, environmentalism and infectious disease management can all be viewed through this lens. The fact that technology, through automation of jobs, has played a similar role and has yet escaped being a target says something interesting about the epistemology of the movement, but I will return to that issue later.

Behind the Rise of Trump

In the 21st century, per capita GDP in the US has increased by about 40%, standing at nearly \$80,000 today. Unlike developing economies like India, the foremost economic challenge faced by Americans is not growth but the income distribution, which has worsened considerably in the last four decades.

Figure 1. Income shares in the US, (1913 – 2023)

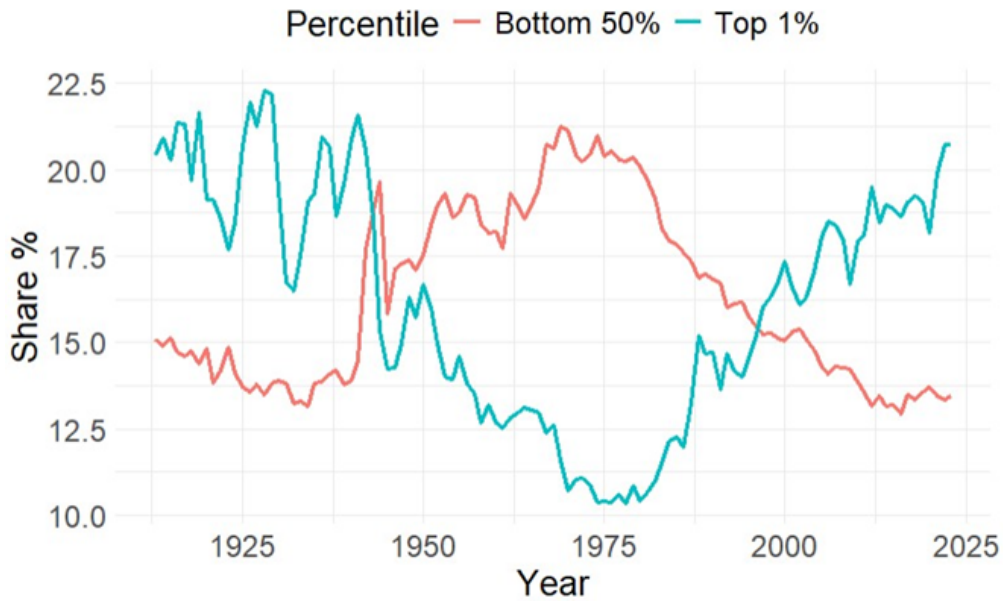


Figure 1 provides a quick snapshot of this by tracking income shares of the top 1% and bottom 50% over the last century. Inequality had shrunk considerably in response to the post-second world war boom, tight labour markets and the welfare state, but in a remarkable reversal over the last four decades, it has returned to levels last seen during the Gilded Age. While growth in labour productivity has not slowed down, real wages flattened out since around 1980 (Figure 2), with workers at lower ends of the skill spectrum facing the brunt of it.

Figure 2. Labour productivity and real wages in the US (1948 – 1973)

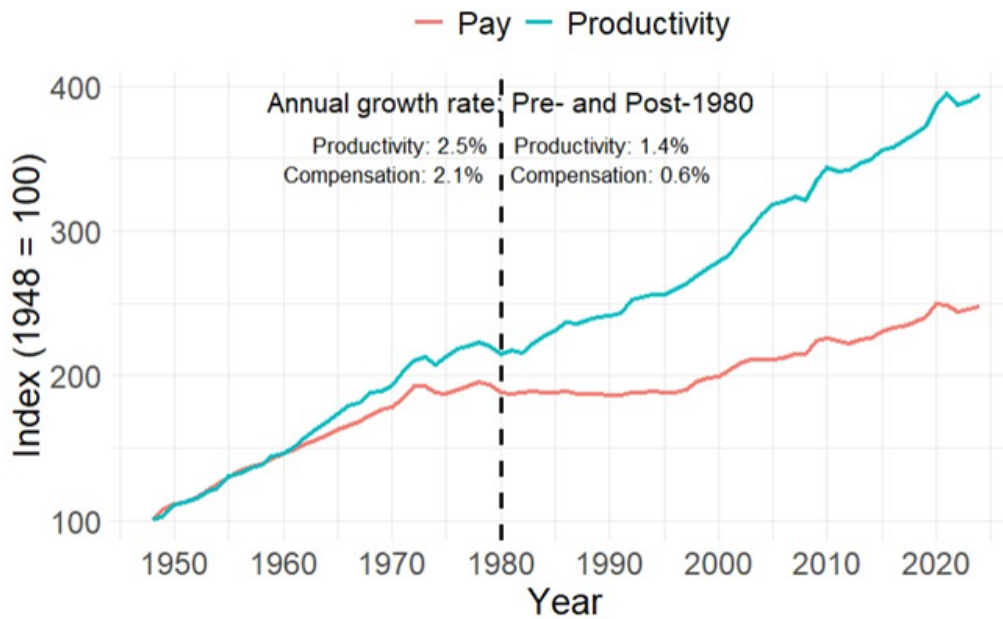
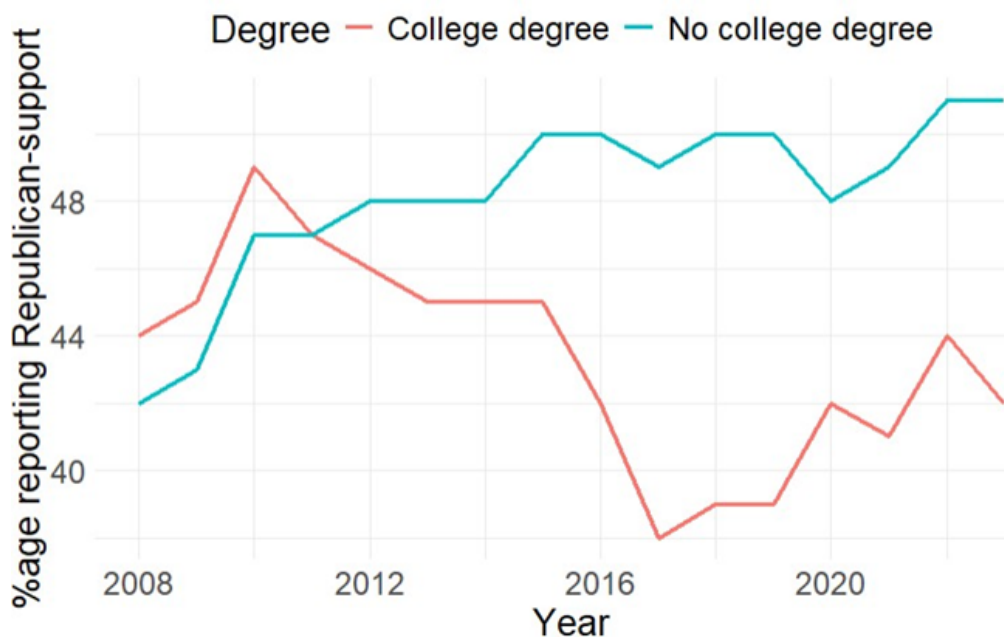


Figure 3. Support for the Republican Party by education, 2008 – 2024



The Trump revolution notwithstanding, it is not that leopards have changed their spots entirely – Republicans are still busy cutting taxes for the rich, and Democrats are still trying to waive college loans and expand healthcare. In an age when the growing gulf between the rich and poor is the defining political issue, why the struggling working class has flocked to the nationalist far-right instead of the egalitarian centre-left (not only in America but worldwide) is the central puzzle. It is as if the monarch butterfly has chosen to fly north in the winter.

Prosperity and Inequality: Conjoined Twins

A point that cannot be underscored enough is this: *prosperity and inequality have the same root causes*. These include trade, technology, immigration, the energy transition and even some aspects of healthcare. The right worries if the pie is growing fast enough; the left questions if it is being divided fairly. Are these overarching goals fundamentally at odds, at least under current economic arrangements? I think they are.

With globalisation, Americans without a college degree lost their passport to a middle-class life, opening the current cleavage in American politics.

That trade and technology have magnified inequality in the advanced economies is now widely acknowledged. Economists often extol the virtues of free trade arising from comparative advantage, even though orthodox doctrine also warns that trade will produce **winner** and **losers** within nations. Trade liberalisation and automation, especially after China’s entry into the WTO, has transformed America from a manufacturing powerhouse to a knowledge economy where only highly educated workers can earn a decent living. David Autor and his fellow researchers **have shown** that in regions more exposed to the ‘China shock’, unemployment was higher, wages were lower and **votes shifted** in favour of the Republican party. With globalisation, Americans without a college degree lost their passport to a middle-class life, opening the current cleavage in American politics – the diploma divide. It is no wonder that the rust belt proved to be the Democrats’ Waterloo in both elections they lost to Trump.



The tension between the size of the pie and how it is divided also surfaces in other areas where Trump's rhetoric is at its loudest. Foremost among them is the immigration issue. Taking in more foreign workers is a natural solution for a looming demographic crisis – ageing populations, rising dependency ratios and growing stress on entitlement programmes like Social Security and Medicare. However, anti-immigrant sentiment has become a coalescing force on the far right. While partly an ethno-nationalist backlash, economic insecurities also lie at the root of this hardening xenophobia. Entry of foreigners may correct a macroeconomic imbalance, but it also creates competition for low-end jobs, low-end housing and social services. [George Borjas](#) estimates that while being positive in the aggregate, the net impact of immigration on the living standards of the poorest Americans has been detrimental.

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Another signature Trump obsession is the dismissal of climate change as a “hoax”. The flurry of executive orders he signed immediately upon assuming office include the withdrawal from the Paris accords and removal of the tax credit on electrical vehicles. Many liberals are quick to attribute this to pure ignorance, and the anti-science streak in American life that goes back to the [Scopes trial](#). They conveniently ignore the clash of economic and class interests that swirl around environmental policy. As we move away from fossil fuels towards renewable energy, thanks to a combination of market forces and government incentives, the cost of mitigation is not spread uniformly. It is concentrated on specific industries, occupations and places, many of which are far from affluent. The desk jobs of researchers, activists and bureaucrats are not on the chopping block; the livelihoods of coal miners and oil-rig workers are.

The same story repeated itself during the Covid-19 pandemic when many small businesses and hospitality sector workers were hit hard by lockdowns and restrictions, while most white-collar jobs easily moved online. [Raj Chetty and coauthors](#) have found enormous variations in income losses due to Covid-19 and its disproportionate impact on the poor and lower middle class. [As I argued](#) at the time, governments ought to have spread out the pain by assessing and collecting a pandemic tax from households who suffered very little. This could have funded the emergency fiscal support hurriedly put into people's pockets. Instead, they ran deficits and increased liquidity, which led to rising prices once the pandemic subsided. Many low-income households paid for the affliction twice – first by absorbing livelihood losses, and second by suffering an inflation tax.

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Of course, environmental science is not a hoax, vaccines are not a corporate marketing gimmick, and pandemics are not science fiction. The fate of America and the world depends on defusing the ticking time bomb that is global warming and maintaining vigilance against zoonotic diseases, just as unleashing the innovations of the Industrial Revolution was critical for mass prosperity several generations

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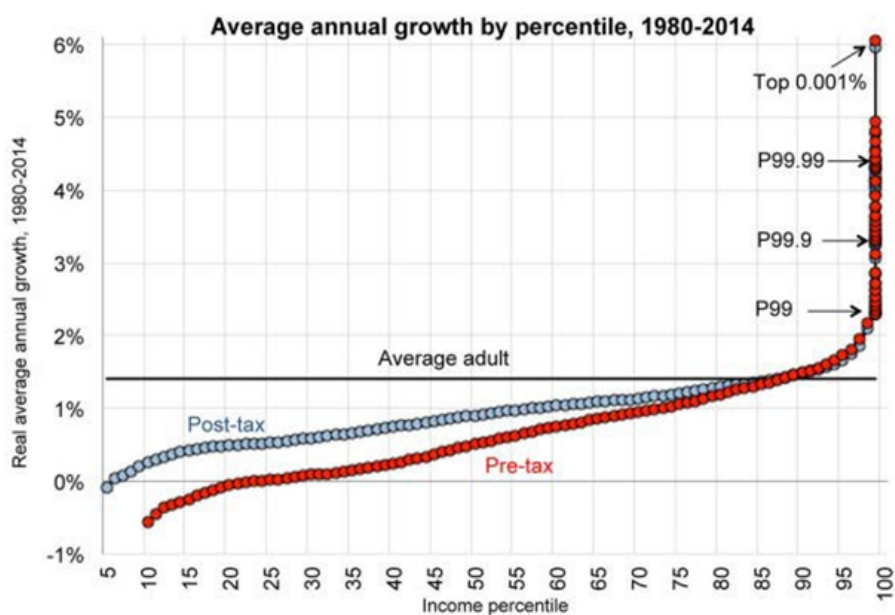
Retail Welfare vs Wholesale Disruption

If Charles Dickens wrote an account of America under Trump, it might start in the same vein as the opening passage of *A Tale of Two Cities* – it is an era of paradoxes and contradictions, exemplified most by Trump himself. A man of privilege and wealth, someone known for *stiffing* his clients, employees and contractors at every opportunity, has successfully passed himself off as a working-class messiah and anti-establishment crusader. Americans worried about their jobs have put their faith in a man whose most iconic utterance from *The Apprentice* is “You’re fired!” The biggest irony is this: Trump is the most vapid of politicians and the most substantive.

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Trump’s solution is simple: like the Luddites, he is a disruptor. He will disrupt the powerful economic forces that have generated national prosperity but also individual penury. He will upend the global free trade regime on which there was a firm bipartisan consensus. He will deport millions of undocumented workers who provide cheap labour to farms, factories and construction sites. He will not give band aid to unemployed miners and oil drillers; he will put them back to work with “drill, baby, drill!” He will dismantle a public health infrastructure that, during Covid-19, destroyed the livelihoods of the poor to protect the lives of the rich. Trump’s scattershot, shifting, chaotic policies have, wittingly or unwittingly, a thematic coherence and political message. Alone among the politicians of both parties, he took a stand: size of the pie be damned, he will protect the slice going to his working-class supporters.

Figure 4. Growth in real incomes across percentiles (1980-2014)



The Democrats’ competing offer to voters is retail welfarism – subsidies for health insurance, better unemployment benefits, relief on student loans, and so on. The right-wing lurch of the electorate has them befuddled and seeking refuge in purely cultural explanations. To what extent has the Democratic party’s agenda really eased the pain of its shrinking working-class base? A glance at Figure 4, which shows pre- and post-tax income growth at various percentiles of the income distribution, provides the answer: very little. The pronounced positive slope captures the growing inequality of the last few decades. While the curve is slightly flattened after taxes and government transfers are factored in, the difference is marginal. You cannot fight a promise of economic resurrection by waving around some gift coupons.

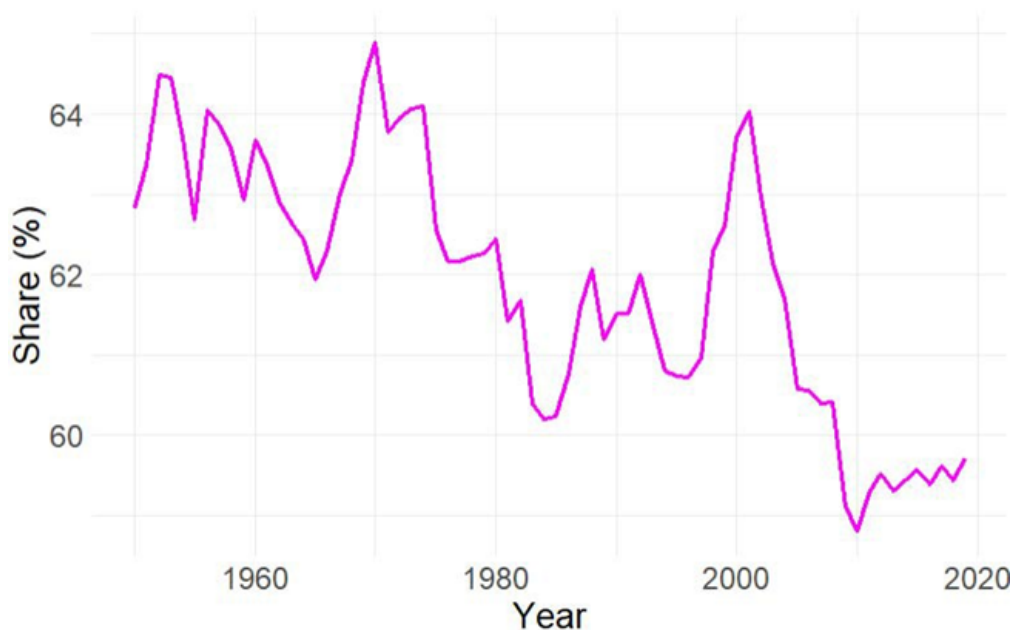
Some of the blame can surely be attributed to the sensibilities and interests of corporate donors and the credentialed class that have increasingly gained influence over the Democratic party. It seems out of touch with the problems of a nation outside of its thriving

urban centres. Its solutions, like greater access to higher education, smack of condescension and reinforce rather than question what Daniel Markovits calls the [meritocracy trap](#). ‘Why don’t they go to college’ may be the modern equivalent of ‘why don’t they eat cake’. I doubt the centre-left has become completely unmoored from its egalitarian roots, though. The challenge of tackling inequality without sacrificing the efficiency and innovative spirit of capitalism is more like curing cancer and less like pulling a bad tooth (to echo [Keynes’s advice](#) of treating economics like dentistry). Nobody can confidently claim to have the answer, but do Democrats understand the question?

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One possible hurdle for Democrats is *intellectual*. They are trapped in their own past triumph – the [New Deal](#) – which came to redefine American and global capitalism for much of the twentieth century. Its framework and legacy create the policy paradigm for the centre-left. The New Deal was a response to macroeconomic instability and institutional fragility – phenomena like record unemployment and bank failures – rather than the kind of structural inequality that has become politically salient today. The U.S [unemployment rate](#) has been persistently low for years; the problem is stagnant or falling real wages that New Deal programmes were not designed to cure. To take just one example, the American public pension system ties a worker’s benefits to her Social Security tax payments, which in turn are proportional to her pay cheque. It protects against individual shocks like bank failures, but it does not redistribute from the rich to the poor as flat-rate pensions in [some other countries](#) do.

Figure 5. Labour share of GDP 1950-2014



The elephant in the room is the falling labour share in GDP (Figure 5). This is hardly surprising – in an age of mobile international capital, vanishing tariff barriers and labour-saving innovations, workers in the advanced nations are no longer a scarce resource. In the coming years, artificial intelligence may deliver the same kind of blow to skilled jobs that industrial robots and offshoring did to manual work. Wealth is far more unequally distributed than skills, making any shift towards a greater share for capital in GDP a gale force wind of inequality.

One of the many advantages of capital income is portfolio diversification and fluidity – one can invest in a mix of stocks and move money out of an industry at the first sign of its decline. One cannot be part lawyer, part carpenter and part schoolteacher, with an opportunity to trade these skills for those of doctors or electricians at will. This stark difference in risk exposure between those living off their wealth and those living off their labour is most acute in a world where Schumpeterian [creative destruction](#) happens at lightning speed.

The solution seems clear at least in broad outline – people’s incomes must be decoupled to a considerable extent from the massive bet they place early in life when they learn a trade, through a [universal basic income](#) for example. Obviously, it must be funded primarily by taxing capital, not labour. Average tax rates on capital income are low and falling in most of the world, partly due to the political clout of the wealthy, but partly also due to capital mobility, tax havens and the [race to the bottom](#) brought about by fiscal competition.

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In a [recent article](#), Debraj Ray and I have proposed one idea – substituting taxes on capital income (corporate profits, dividends and capital gains) by a tax on capital stocks (paper assets). Simply put, make it statutory for publicly traded companies to issue new shares to the government equal to some fraction of their outstanding shares, diluting the wealth of existing shareholders. This has considerable enforcement advantages and should allow much higher tax rates without triggering any significant evasion. A second prong of our proposal is to create a sovereign wealth fund to take advantage of the [equity premium](#), which is really the engine of wealth creation under capitalism. The market capitalisation of the US stock market is about 200% of GDP. If half of that were socialised, it should yield about 10% of GDP annually at average rates of return.

Broadly similar ideas have been echoed by [Yanis Varoufakis](#), the former Greek finance minister, as well as [Emmanuel Saez](#) and [Gabriel Zucman](#), who were advisors to Democratic presidential candidate Elizabeth Warren. The idea of a sovereign wealth fund has been toyed with by both the [Biden](#) and [Trump](#) administrations, without any concrete steps yet. Perhaps capitalism needs a healthy dose of [market socialism](#) to tackle its current crisis. Other ideas emphasize [predistribution](#) rather than redistribution – empowering labour by reviving unions, regulating wages and working conditions, or giving it representation on corporate boards.

The exact path out of the woods is debatable but that is not my focus here. Let me summarize my main points. First, grievances of Trump voters have real economic foundation and cannot be dismissed purely as the chauvinisms of a ‘basket of deplorables’. Second, inequality is a feature, not a bug. It is an intrinsic property of the same global capitalism that has produced innovation and prosperity, not its unfortunate corruption. Third, Trumpian proposals like protectionism, immigration control and rejection of green policies do stand to benefit his voters even as they destroy collective gains. They need to be taken seriously rather than being treated as tilting at the windmills. Finally, the New Deal policies that Democrats have in their arsenal are not competitive anymore – Democrats have lost on policy, not just politics. Those voters who are paying the price of creative destruction will be naturally attracted to destructive protection of the kind Trump ostensibly offers unless it is countered by significant new redistributive policies.

Across the world, centre-left parties have run into an ideas problem, not a mere messaging problem (but more on that below). The sooner they recognize this, the better.

American Dreamland

This article is not the first to refer to the Luddites while discussing the political fissures created by modern inequality. A decade ago, Paul Krugman expressed [sympathy for the Luddites](#) but he was literally talking about technological change as a cause of disempowerment for the working class. My usage of the L word here is metaphorical and broader. It is indeed a puzzle that our neo-Luddites are everything except literal technophobes. How can a fundamentally ante-diluvian movement welcome the [brologarchy](#) into its fold (Steve Bannon’s [furious dissent](#) notwithstanding)? Hasn’t automation been a big job killer in manufacturing?

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Americans are heavily invested in the idea of the American dream – that it is a land that rewards talent and hard work, not the accident of birth, social connections or the forces of randomness. This national self-image was reinforced by the spread of prosperity in the three decades after World War II. As things started going pear shaped from 1980 onwards, cognitive dissonance drew struggling Americans to narratives that emphasize conspiracy and corruption rather than question the fundamental justice of their economic system. In Trump Land, this cognitive escape hatch is xenophobia – a once great America has been swindled by sly foreigners who slip across the border, adopt unfair trade practices, and free ride on American technology and military protection. If only one could go back to

American capitalism, the Mayflower and Calvinist edition!

Meanwhile, [data shows](#) that economic mobility in America has never been high and has now fallen below that in Europe. As [George Carlin said](#), you must be asleep to believe in the American dream. If liberals are to defeat the MAGA movement, they must first be brave enough to be blasphemous and dispel this foundational mythology. The monarch butterfly will fly south only when it is a warmer place and is seen to be a warmer place.

End with a Bang or a Whimper?

I am not suggesting that Trump's policy thrust of promoting distributive justice over a more productive economy is borne out of empathy or coherent philosophy. His argument for tariffs keeps spinning across half a dozen mutually contradictory rationales like a swirling dervish – bring back manufacturing, raise revenues, use it as a threat to stop drugs and undocumented aliens at the border, punish countries who themselves undermine free trade, manage the dollar, and so on.

They are an on-again-off-again affair, and rates seem to be determined by Twitter spats.

Nevertheless, there are some constants. Trump has been enamoured with tariffs going back to the 1980s, though at the time, he held forth on the topic with some kind of misguided mercantilist logic. As a businessman, he has an inherent distaste for regulation and the inconveniences caused by pesky tree huggers. However, he has never articulated a clear vision of economic nationalism like his erstwhile lieutenant Steve Bannon has. Trump is an accidental populist – he smelled political opportunity in some of his own inchoate pet peeves and turned them into a successful campaign. Whether he will follow through is anybody's guess.

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Even if one sees economic isolationism as the solution to the woes of the working class, the problem of transition makes it daunting. In the three decades since financial and trade liberalisation led to a gradual exodus of manufacturing from America, the global economy has become a spider's web of supply chains that knows no national borders. More than ten million undocumented immigrants contribute a big share of the labour force. The economic restructuring required by the tariff and visa wars will take a long time to complete. In the interim, a sinking tide will lower all boats. The prospect of severe labour and materials shortage, inflation, recession and a stock market crash is very real. Acts of pure vendetta such as the assault on universities (the source of America's innovative edge) and government itself (the source of relief in troubled times) is going to compound these problems. It is possible that Trump 2.0 will lose nerve, flail and fizzle out.

However, the disruptive march of the far right across the Western world will only come to a halt when the left discovers a way to divide the pie fairly without shrinking it. Time will tell whether that is a pie-in-the-sky or a viable political project.

Postscript

After this article was written, and a day after April Fool's Day, Trump announced sweeping "reciprocal tariffs" on all major countries, with a 26% rate slapped on India. Within two days, the Dow Jones industrial average had plunged 8.7%, while the tech-heavy NASDAQ index fell by 10.7%. As the world grasps with this audacious challenge to the international economic order, it will be a fatal mistake to lose sight of either side of the coin: the inequality as well as the prosperity generated by technology and globalisation.

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