

# Prosperity, Disruption, and the Trump Opportunity

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This video grab taken from a video posted on the Twitter account of billionaire Tesla chief Elon Musk shows himself carrying a sink as he enters the Twitter headquarters in San Francisco on Oct. 26, 2022. Twitter account of Elon Musk/AFP via Getty Images



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*Commentary*

People are now whispering that the Trump transition team does not have enough economists on its bench. One might suppose that would worry me. Actually, I'm not so sure. Economists have massively underperformed in public life for years now, and have been nearly as worthless as epidemiologists and many others in the expert class.

Okay, that's a bit hyperbolic but it contains a terrible truth. Policy decisions over four-plus years have been misguided at best and deeply destructive at worst—of prosperity, health, culture, and well-being overall.

It's not easy to name more than a dozen or so economists who spoke out against the mass closure of small business, for example, or who warned against the rampant inflation that was easily foreseen based on multiple rounds of budget-busting stimulus.

Why were they so silent? The usual reason: career opportunism. It became clear what precisely the establishment wanted everyone to say, and every upwardly mobile credentialed professional readily complied. The overclass chose short-term interest over long-term credibility. This was true in media, government, and academia, including and especially the economists.

Keeping the economists out might not be the worst thing imaginable. Economists, like so many other experts, are overly convinced by their own rationalistic models and neglectful of the exigencies of human choice and unpredictable change. You can look through charts and models all day and gain no greater insight into precisely what the future portends under various policy proposals.

My strong suggestion for the incoming Trump administration, as regards economics and so much more, is to dig up a 1982 book by Mancur Olson called "[The Rise and Decline of Nations](#)." The book rocked the profession at the time, is mandatory reading in some specializations, but generally the implications of the work have not been integrated into conventional wisdom, as true as they are.

Olson had an insight on the difference between prosperous nations and nations in decline. For him, it all comes down to the institutions.

Nations that have languished in stability for decades face a genuine but surreptitious danger. They come to be dominated by what he called “Distributional Coalitions.” These are deeply networked relationships between industry, government, lobbyists, friend networks, academia, and pockets of family wealth intent on building in protection for themselves at the expense of everyone else.

A society dominated by distribution networks cannot generate wealth because they specialize in erecting barriers to social mobility, professional adaptability, and entrepreneurial success. They erect formal and informal controls in the form of regulations, pressure groups, agency revolving doors, and industry cartels. These complicated networks are difficult if not impossible to disrupt and uproot because they are built to withstand just such pressure. All relevant institutional knowledge is embedded within them, so they typically outsmart normal politics.

The free market is nothing more than a slogan to them. What they want, and what they create, is a rigged system, in close cooperation with government and dominant players. Their profitability model is to destroy the economic prospects for upstarts. The game is rigged to favor the incumbents. This can go on for decades, even centuries.

Thus does the irony present itself. Successful prosperous societies breed such distributional coalitions that end up choking up the mechanisms that make further progress possible. New waves of wealth require precisely the “chaos” that such coalitions are built to stop. As a result, nations stagnate in macroeconomic atherosclerosis. The blood stops flowing and the patient dies.

What’s the alternative? The coalitions must be disrupted and even destroyed in order to prepare the ground for new prosperity.

In a bracing way, Olson explores in some depth the example of Japan before and after World War II. Before the war, Japan was being eaten alive internally by complicated political and social works that conferred stability but not economic growth and rising well being. Then the war came and terrible destruction along with it. The

“unconditional surrender” was cruel and unnecessary but it did prepare fertile ground for postwar growth.

With the coalitions broken up, the bureaucracies shattered, and industries ruined, the forces that had prevented innovation and wealth creation were wiped away. As a result, the nation started fresh with new innovators and a new freedom that led, in rather short order, to industrial might and widespread prosperity. It's an extreme of creative destruction but the key to understanding the madness is to observe the flattened networks of entrenched interests that had previously constrained progress.

The story of the German Economic Miracle after the war offers a similar example. The wartime industries were mostly bankrupted and small businesses came back. New people inhabited positions of power and they had new ideas. A solid 10-30 years of rising prosperity followed, due mainly to the seeming chaos of the postwar years.

The serious and robust conclusion of this analysis: do not fear disruption of a deep and radical sort. It could unleash wealth creation on a level never seen before.

America has that potential, just like Japan and Germany following the war. No model can perfectly predict it. The results could astonish the world, provided that a genuine shock hits the status quo.

An example in microeconomics comes from the paradigmatic case: when Elon Musk bought Twitter. He waltzed in carrying a sink, marched upstairs, and started cutting. In a matter of weeks, he had fired four out of five employees. Corporate America had never seen anything like it in the generations. No one even thought such a thing was possible.

What was the result? Yes, there were some hiccups and long hours put in by the survivors. But in the course of one year, the new company X had become the number one news source in the world. They started paying creators. They made available the best AI language model. They enabled calling on direct messages.

Most importantly, they stopped the censorship and gave people confidence that their voices would be heard. In doing all this, Elon overcame attacks by a dozen federal agencies plus an advertising boycott. Through it all, he knew precisely what he was doing and triumphed over all the critics.

This was the Olson thesis come to life. Completely destroying the distribution coalition paid off. It unleashed creativity. It compelled public attention. It attracted investors. It was exciting and new. It is easily the most important digital application and social-media source on the whole planet. All that was necessary was to eliminate the cruff from the system. The wealth creation follows.

A major lesson from the Olson thesis: fundamental institutional change is only rarely produced from within the system itself; it mostly comes from without. It is exogenous from a shock, something that prevailing elites find profoundly upsetting.

This is the right path for the Trump administration. They can forget all forecasts, all models, all advice from experts, all number crunchers from the office of this or that. None of it matters. If they can really do what they say and truly pursue a scorched earth policy of utter disrupting of business as usual, the growth happens in a way no one could possibly predict.

We are faced with a once-in-a-lifetime opportunity to reset the nation's experience and prepare the ground for an epic rise in prosperity for all. But the only way this happens is through the mechanisms that Mancur Olson describes: shock and awe against all the systems in place that have ground wealth creation to a halt.

As the last week has reminded us, America is a land of extraordinary energy, intelligence, and ambition. All that's necessary to resurrect is the freedom to try and the freedom to succeed. If that happens, the experience of the next four years will enter the history books in a way more powerful than even the postwar German economic revival.

*Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.*

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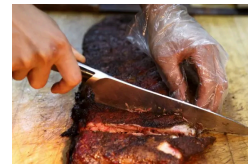


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