Navigating The New Gilded Age

Why Change Is Coming... Again
Contents

NAVIGATING THE NEW GILDED AGE

- How Modern America Is In a New Gilded Age (slides 3-8)
- How the Last Gilded Age Ended & What It Means for Today (slides 9-15)
- Where We Are Now: 7 Knowns & Unknowns (slides 16-30)
- What We’re Watching: Q4 ‘17 Politics & Policy (slides 31-35)
How Modern America
Is In a New Gilded Age
(1870-1920)
Gilded Age Economy Saw Rapid, Disruptive Change

Sectoral Composition of U.S. Employment Changes

**The Gilded Age**

- Agricultural employment decreased significantly from around 60% in 1870 to 20% in 1930.
- Manufacturing employment increased from about 25% in 1870 to around 45% in 1930.

**Today**

- Services employment has grown from 10% in 1955 to over 90% by 2015.
- Manufacturing employment has declined from around 50% in 1955 to around 10% in 2015.

Fears linger from recent financial crashes (1873, 1893, 1907... 2007)

Global trade powers growth but has winners & losers

Laws & regulations designed for the past century fail to cover new economy

Source: US Census Bureau
Emerging Tech Defined the Gilded Age… and Today

If Data is the New Oil, Is Bezos the New Rockefeller?

**The Gilded Age**
- Carnegie (STEEL)
- Rockefeller (OIL)
- Vanderbilt (RAILROADS)

**Today**
- Page / Brin (ONLINE ADS)
- Bezos (E-COMMERCE)
- Zuckerberg (SOCIAL NETWORK)

Vast fortunes amassed by Iconic Innovators (aka “Robber Barons”)

Electricity & Engines

Transformative tech reshapes economy

Internet & Mobile

Dominant firms build huge market share
Gilded Age Politics Have Returned

Intensely Divided Red & Blue States

1888 Election

Electoral college winner loses popular vote

Rising share of election spending by fewer ultra-rich financiers

2016 Election

New communications technologies engender media sensationalism

Source: Gerald Seib, WSJ
Demographic Disruptions Drive Social Angst

As income inequality grew, many in the “bottom 90%” blamed the rapid rise of immigrants... who no longer looked like them.
Fear & Frustration Fuel Populist Backlash

BLAME IMMIGRANTS

FAULT TRADE

HIT “GLOBALISTS”

ATTACK THE PARTIES
How the Last Gilded Age Ended
And What It Means for Today
THEN: Changing World Reshuffles Politics

REFORM REVOLUTIONARIES
Dominant Republican Party Splinters Between Establishment & Reformers

CRUSADING MUCKRAKERS
Independent Journalists Expose Market Failures, Catalyzing Demand for Reform

POLITICAL INNOVATORS
Industrial Age Generates New Policy Issues & New Political Alliances
THEN: Populist Passions Led to Real Reforms

**Political Reforms**
- **AMENDMENT XVII**
  - Direct Election of Senators
- Tillman Act of 1907...
  - Bans corporate political contributions

**Market Reforms**
- **Business Monopolies**

**Social Reforms**
- **16TH AMENDMENT**
  - Income tax (1913)
  - Congress has the right to tax people's incomes
NOW: Antiquated Systems Ripe for Change

Yesterday’s Rules Unfit For Tomorrow’s Economy

- Antitrust Law: 1890, 1914
- Highways: 1956
- Entitlements: 1966
- Tax Law: 1986
- Telecom Law: 1996
NOW: Winner’s Circle Is Too Small

Success in Modern America Depends on your...

...Geography

Distressed communities index

Prosperous Comfortable Mid-tier At risk Distressed

...Education

Head of the Class
Change in employment level by educational attainment

Bachelor’s and higher
Some college or associate’s
High school only
Less than high school

2017 gains in the S&P 500:
✓ 37% from AAPL, FB, AMZN, GOOGL, MSFT
✓ 63% from the other 495 companies

Sources: Economic Innovation Group (DCI); Zero Hedge (S&P)
Politics Has Become a Two-Front War

INSIDE
Goldman Sachs is Good
Globalization Works
Lead the World

LEFT
Non-White Identity Politics
More Immigration
Race & LGBTQ
Gun Control

CULTURE
WAR
CLASS

RIGHT
White Identity Politics
Less Immigration
Race & LGBTQ
2nd Amendment

OUTSIDE
Tax the Rich
Trade is Bad
Punish Wall Street
Stop Nation-Building
NOW: Are Social Networks the New Muckrakers?

Empowered Activists or Vigilante Mobs?

Donald J. Trump
@realDonaldTrump

Rather than putting pressure on the businesspeople of the Manufacturing Council & Strategy & Policy Forum, I am ending both. Thank you all!

10:14 AM - 16 Aug 2017
Where We Are Now

7 Knowns & Unknowns
#1. KNOWN: Trump’s Core Voters Remain Happy

**Trump Approval Remains High Among Trump Voters**

Voted for Trump in GOP Primary

98% approval

Voted for Trump ( Liked Him ) Rather Than Against Hillary

97% approval

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<th>Subgroups With Trump Net Job Approval</th>
<th>Approval</th>
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<td>Republicans</td>
<td>+70</td>
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<tr>
<td>Rural</td>
<td>+30</td>
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<tr>
<td>White No College</td>
<td>+22</td>
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<td>White (all)</td>
<td>+7</td>
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<td>65+</td>
<td>+3</td>
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<td>50-64</td>
<td>+2</td>
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<td>35-49</td>
<td>+2</td>
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Source: NBC/WSJ, Sept. 2017
#1. **UNKNOWN: How Can Trump Expand His Base?**

Anger Over “Culture Wars” Likely to Limit Gains from Economic Nationalist Message

**Trump Net Job Approval by Key Subgroups**

Source: NBC/WSJ, Sept. 2017
#2. KNOWN: Trump Is Winning In Many Ways

Dow Jones Industrial Average closed at new record high

53 times in 2017 (thru 10/20)

S&P 500 Return 1st Year Through 10/20

<table>
<thead>
<tr>
<th>Year</th>
<th>Return</th>
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<tr>
<td>GHW Bush 1989</td>
<td>27.0%</td>
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<td>Kennedy 1961</td>
<td>22.9%</td>
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<tr>
<td><strong>TRUMP 2017</strong></td>
<td><strong>20.4%</strong></td>
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<tr>
<td>Clinton 1993</td>
<td>11.7%</td>
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<tr>
<td>Obama 2009</td>
<td>8.5%</td>
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<tr>
<td>Eisenhower 1953</td>
<td>-2.0%</td>
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<tr>
<td>Nixon 1969</td>
<td>-6.6%</td>
</tr>
<tr>
<td>Reagan 1981</td>
<td>-8.4%</td>
</tr>
<tr>
<td>Carter 1977</td>
<td>-9.1%</td>
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<tr>
<td>GW Bush 2001</td>
<td>-23.8%</td>
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</tbody>
</table>

DEREGULATION NATION
- Withdrawn /delayed 800+ Obama-era regulatory actions
- New “significant regulations” down 80%

REMAKING FEDERAL JUDICIARY
- 7 Confirmed
- 51 Nominated
- 100 vacancies awaiting Trump nominee

Sources: TheBalance (DJI); S&P data; US Courts; CEI (regs)
Republican Voters’ View of Leadership
(Net Right Direction)

Source: CNN (by SSRS), Sept. 17-20, 2017
#3. KNOWN: Cutting Deals Is Good For Trump

Deal with “Chuck & Nancy” Avoiding Shutdown Was Trump’s Most Popular Action in First 250 Days

Source: NBC / WSJ Sept. 2017
#3. UNKNOWN: Are Deals Also Good For Dem Leaders?

Dem Base: Why Join Him When You Can Beat Him?

Pelosi heckled by activists for DACA deal

Liberal protesters protest at Schumer’s home

The Mercury News

Sen. Dianne Feinstein booed at San Francisco event after saying she hopes Trump can change
#4. KNOWN: Tech Sector Is Under Growing Pressure

**RISING PROTECTIONISM**
Limiting Market Access & Taxing Locally

**RISING POPULISM**
Questioning Size, Fairness & Consumer Welfare

**RISING NATIONALISM**
Challenging Security & Local Contributions

**RISING NATIVISM**
Limiting Access to Talent
#4. **UNKNOWN: What Might Disrupt the Disruptors?**

**A World of Trouble: Global Tech Policy Risks Proliferating**

<table>
<thead>
<tr>
<th>Market Power Issues</th>
<th>USA</th>
<th>EU</th>
<th>China</th>
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<tbody>
<tr>
<td>Antitrust, Regulatory parity, Minimum tax, Royalties to publishers, Algorithm transparency, Automation &amp; Local jobs</td>
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<tr>
<th>Consumer Protection</th>
<th>USA</th>
<th>EU</th>
<th>China</th>
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<tbody>
<tr>
<td>Privacy, Political ad disclosure, Breach notification</td>
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<tr>
<th>Security Concerns</th>
<th>USA</th>
<th>EU</th>
<th>China</th>
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</thead>
<tbody>
<tr>
<td>Gov’t surveillance, Encryption, Export controls, AI &amp; Drone regs</td>
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<table>
<thead>
<tr>
<th>Intermediary Liability</th>
<th>USA</th>
<th>EU</th>
<th>China</th>
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<tbody>
<tr>
<td>Hate speech, Online sex trafficking, Copyright, Fake news</td>
<td></td>
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<thead>
<tr>
<th>Trade Policy</th>
<th>USA</th>
<th>EU</th>
<th>China</th>
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</thead>
<tbody>
<tr>
<td>Cross-border data &amp; Forced localization, CFIUS, Local taxation</td>
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</tbody>
</table>

Source: Mehlman Castagnetti analysis
#5. **Known**: First Midterms Are Hard for Party in Power

## All (Midterm) Politics Are National

<table>
<thead>
<tr>
<th>President &amp; Year of 1st Midterm</th>
<th>Net POTUS Job Approval</th>
<th>House Seats</th>
<th>Senate Seats</th>
<th>Governor-ships</th>
<th>Seats in State Legislatures</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRUMAN (1946)</td>
<td>-19</td>
<td>-55</td>
<td>-11</td>
<td>-2</td>
<td>-456</td>
</tr>
<tr>
<td>IKE (1954)</td>
<td>+35</td>
<td>-18</td>
<td>-2</td>
<td>-8</td>
<td>+483</td>
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<tr>
<td>JFK (1962)</td>
<td>+36</td>
<td>-5</td>
<td>+4</td>
<td>0</td>
<td>-76</td>
</tr>
<tr>
<td>LBJ (1966)</td>
<td>+3</td>
<td>-47</td>
<td>-3</td>
<td>-8</td>
<td>-762</td>
</tr>
<tr>
<td>NIXON (1970)</td>
<td>+31</td>
<td>-12</td>
<td>+1</td>
<td>-11</td>
<td>-288</td>
</tr>
<tr>
<td>CARTER (1978)</td>
<td>+13</td>
<td>-15</td>
<td>-3</td>
<td>-5</td>
<td>-357</td>
</tr>
<tr>
<td>REAGAN (1982)</td>
<td>-6</td>
<td>-26</td>
<td>0</td>
<td>-7</td>
<td>-201</td>
</tr>
<tr>
<td>GHW BUSH (1990)</td>
<td>+26</td>
<td>-7</td>
<td>-1</td>
<td>-1</td>
<td>+32</td>
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<tr>
<td>CLINTON (1994)</td>
<td>0</td>
<td>-54</td>
<td>-8</td>
<td>-10</td>
<td>-514</td>
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<tr>
<td>GW BUSH (2002)</td>
<td>+33</td>
<td>+8</td>
<td>+2</td>
<td>-1</td>
<td>+127</td>
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<tr>
<td>OBAMA (2010)</td>
<td>-3</td>
<td>-63</td>
<td>-6</td>
<td>-6</td>
<td>-708</td>
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<tr>
<td><strong>TRUMP (2017)</strong></td>
<td>-19</td>
<td><em>tbd</em></td>
<td><em>tbd</em></td>
<td><em>tbd</em></td>
<td>-8 (out of 27 chances so far)</td>
</tr>
</tbody>
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Sources: Sabato; NCSL; W.Post
## #5. UNKNOWN: Is the Tea Party Back (With a Vengeance)?

**Breitbart Targeting Establishment Candidates in Primaries**

<table>
<thead>
<tr>
<th>Year</th>
<th>Outcome</th>
<th>Result</th>
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</thead>
<tbody>
<tr>
<td>2010</td>
<td>“Establishment” stays out of competitive primaries</td>
<td>59% of Contested Primaries</td>
</tr>
<tr>
<td>2012</td>
<td>“Establishment” supports incumbents &amp; better candidates</td>
<td>79% of Contested Primaries</td>
</tr>
<tr>
<td>2014</td>
<td>“Establishment” stays out of competitive primaries</td>
<td>100% of Contested Primaries</td>
</tr>
<tr>
<td>2016</td>
<td>“Establishment” stays out of competitive primaries</td>
<td>100% of Contested Primaries</td>
</tr>
<tr>
<td>2018</td>
<td>“Establishment” stays out of competitive primaries</td>
<td>0 for 1 of Contested Primaries so far</td>
</tr>
</tbody>
</table>

**Round 1:**
- **O’Donnell Ad:** I’m Not a Witch
- **Outcome:** Star Wars bar scene

**Round 2:**
- **Judge Roy Moore**
- **Outcome:** GOP wins & holds Senate

Source: Author’s analysis of contested GOP primaries
#6. **KNOWN: Trump Needs a Foil (or Ten)**

**Politically-Incorrect Provocateur Is His Brand**
#6. UNKNOWN: Will the Semantic Presidency Persist?

- Depends on the Meaning of “Is”
- Depends on the Meaning of “Mission Accomplished”
- Depends on Meaning of “Red Line”
- Depends on Meaning of “Wall”
#7. KNOWN: The Trump Team Is Pivoting

**Trump Following Clinton Playbook**

- **Retool White House Operations**
- **Successful Leadership Moment**
- **Pivot to the Center on Policy**
- **Enjoy Strong Economic Run**
- **Leverage Less Popular GOP Foil**
#7. UNKNOWN: Are Pivots Possible in a Twitter World?

Tweeters Gonna Tweet

Donald J. Trump
@realDonaldTrump

Just heard Foreign Minister of North Korea speak at U.N. If he echoes thoughts of Little Rocket Man, they won't be around much longer!
11:08 PM - 23 Sep 2017

Donald J. Trump
@realDonaldTrump

...can't change history, but you can learn from it. Robert E Lee, Stonewall Jackson - who's next, Washington, Jefferson? So foolish! Also...
9:15 AM - 17 Aug 2017

Donald J. Trump
@realDonaldTrump

If NFL fans refuse to go to games until players stop disrespecting our Flag & Country, you will see change take place fast. Fire or suspend!
6:44 AM - 24 Sep 2017

Donald J. Trump
@realDonaldTrump

The Senate must go to a 51 vote majority instead of current 60 votes. Even parts of full Repeal need 60. 8 Dems control Senate. Crazy!
9:26 AM - 18 Jul 2017

Donald J. Trump
@realDonaldTrump

We are in the NAFTA (worst trade deal ever made) renegotiation process with Mexico & Canada. Both being very difficult, may have to terminate?
9:51 AM - 27 Aug 2017

Donald J. Trump
@realDonaldTrump

I heard poorly rated @Morning_Joe speaks badly of me (don't watch anymore). Then how come low I.Q. Crazy Mika, along with Psycho Joe, came..
8:52 AM - 29 Jun 2017
What We’re Watching

Q4 2017 Politics & Policy
## Congress Unlikely to Do More Than It Must

### MUST DO (Deadline-Driven)
- **Funding FY18** *(or shutdown 12/8)*
- **Hurricane Relief** *(Oct & Dec)*
- **NDAA** *(National Defense Authorization)*
- **NSA surveillance reauth** *(§FISA 702)*
- **CHIP** *(Children’s Health Insurance)*
- **Medicare Extenders**

### VERY POSSIBLE
- **Budget for FY18 tax reform** *(allowing use of reconciliation)*
- **DACA deal** *(maybe with budget)*
- **Other tax extenders**
- **MGT Act** *(gov’t tech modernization)*

### MOVEMENT
- **Tax Reform** *(House action very possible)*
- **Infrastructure bill**
- **Online Ad disclosure**
- **SESTA** *(online sex trafficking)*
- **Data Breach** *(post-Equifax)*

### Calendar

#### October
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#### December
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Source: Mehlan Castagnetti analysis
Key Questions for the Fall

Will McConnell have 50 reliable GOP votes as of 1/1/18?

At-risk Senators can’t always follow, retiring Senators won’t.

Is Steve Bannon more powerful outside the WH?

Watch to see if more GOP incumbents retire rather than face a two-front war for re-election.

Will trade battles blossom into trade wars?

There will be tariffs in Q4 (solar +), with new sanctions against China proposed by USTR.

Can Democrats expand the “enthusiasm gap” over the GOP?

Percent Extremely Enthusiastic about voting for Congress next year:
Ds: 24%
Rs: 14%

(SSRS for CNN, 9/24/17)

Where will populist disruption appear next & in what form?

No Nation Is Immune
UK (Brexit)
Germany (AfD)
Spain (Catalonia)
Japan? (Oct)
Austria? (Oct)
Italy? (May ‘18)
The Supreme Court Starts a Very Consequential Term

Major Cases Before the SCOTUS

**Masterpiece Cake Shop v. CO:** Can a private business refuse to serve customers claiming religious objection to their sexual orientation?

**Gill v. Whitford:** Is partisan gerrymandering Constitutional?

**Janus v. AFSCME:** Are all union dues inherently political & voluntary?

**Carpenter v. US:** Can police obtain cell phone geolocation data without a warrant?

**Christie v. NCAA:** How far can federal preemption go to prohibit states from allowing betting on college sports?

**Jesner v. Arab Bank:** Can corporations be sued in U.S. courts for complicity in human rights abuses abroad?

**Husted v. A. Phillip Randolph Inst:** Can the federal government review & “clean up” state voter rolls?
Many Wildcards Capable of Upending

The Job Is Hard Enough Without...

Special Counsel Investigation

Crazy Foreign Foes

Markets Due for Correction?

Anti-Republican Republicans

Disasters & Mass Violence

Team “Optics” (e.g. jets)
is one of the nation’s most innovative government relations firms, offering strategic solutions to companies, trade associations, non-profits, and entrepreneurs that help them succeed in Washington.

For prior quarterly updates:

http://mehlmancastagnetti.com/infographics/