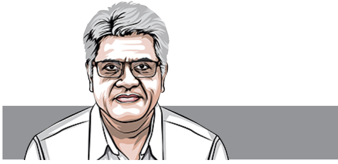
Trumpism still remains unvanquished

The U.S. President-elect has vowed to rebuild the middle class, but will have a hard time finding the middle ground



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In his first speech after winning the election as the 46th President of the United States, Joseph R. Biden promised to rebuild the middle class as the "backbone of the nation". A "middle class" presupposes a political centre, a vantage point from which policies could be determined to secure the greatest good to the greatest number. That centre could be difficult to find after a bitter election campaign and a contest much closer than predicted.

Mr. Biden brings rectitude to the White House after four years of rampant ugliness and untruth. Restoring a semblance of equity will be harder, when the system has drifted far from that ideal and the drivers of inequality are deeply rooted. President Donald Trump's singular achievement, touted till the bitter end, was the "greatest economy in history", a bit of hyperbole resting on the thin foundation of the stock market. Other boasts, such as a massive stimulus to U.S. manufacturing output, refuse to die though long since proven hollow.

Effects of tax code changes

By 2019, the U.S. economy was coming off the sugar boost from Mr. Trump's signature policy initiative, the Tax Cuts and Jobs Act of 2017, passed a few days before Christmas on a strictly partisan vote. This most far-reaching change to the tax code raised exemption limits on estate duty and reserved many other favours for high-income individuals and corporations. The few concessions to the middle class and low-income earners, were largely neutralised by lower allowances and deductions.

The tax cuts sparked a flurry of share buybacks by corporate beneficiaries, sending prices soaring. In August 2018, Apple Corporation hit a market valuation of $1 trillion, followed in quick order by others from the fabled quartet of new age scrips: Amazon, Microsoft, and Google. As the animal spirits remained unabated, Apple's market valuation doubled in just two years, hitting a stratospheric $2 trillion amidst the pandemic gloom.

By all conventional metrics, these valuations defy logic. Today's ratio of share prices to earnings stands near the levels touched between 2007 and 2008, just ahead of the abrupt collapse heralded by the global meltdown.

A redistribution and politics

This perverse economic redistribution through assets price inflation, contrary to traditional Keynesian processes of progressive taxation, has been underway for four decades. The 1980s began under the shadow of the "Volcker shock", an overnight increase in interest rates that pushed the U.S. into recession, playing no small part in propelling Ronald Reagan to a decisive win in the presidential election. The interest rate shock also had the effect of transforming incentives: investment now flowed increasingly into financial assets, while much fixed capital was taken out of commission as the U.S. lost global manufacturing competitiveness.

High interest rates attracted large inflows of foreign capital, sustaining and causing the enormous U.S. external deficit in a process of cumulative causation quite unlike anything foreseen by "equilibrium theory". Events on the stock markets also foreshadowed much that was to come, with the excesses of "junk bonds" causing a buoyancy in excess of anything warranted by the real economy. As the markets began a shake-out, the U.S. slipped into recession in the early 1990s, heralding the ouster of Reagan's successor, George H.W. Bush, after just one term.

AFP

Bill Clinton sought a conventional remedy with a tax hike, but showed his fealty to the new ethos with a thorough deregulation of financial services. With the Internet then sparking innovation and perhaps a greater frenzy of speculation, the markets went into a giddy spiral. And even as the government managed to curtail borrowing, households and the corporate sector eagerly began picking up enormous liabilities on their collective balance sheets.

As both parties tacked to the right in matters of economics, culture became a terrain of battle. That afforded the leverage for George W. Bush to win back the presidency for the Republicans by a majority of one in the Supreme Court, after losing the national vote. He inherited a budget in near balance, which he regarded as a luxury to be shared with his constituency of "haves and have-mores". It mattered little that Mr. Bush was then taking the U.S. into a war of indefinite duration and global expanse.

One bubble to another

The "dot com boom" turned bust just as the Bush tax cuts showed up as record new deficits. A new bubble had to be conjured up to sustain the mirage of economic buoyancy, and it was by pumping up prices of existing real estate stock and selling dreams of home ownership to millions whose earnings had languished for years.

That bubble burst in 2008 and in elections held within two months of the catastrophe, the U.S. elected for the first time, a person of African origin as President. Barack Obama brought conventional Keynesian remedies back, but the massive rescue package he shepherded through Congress, was soon transmuted into record bonuses paid out to the bankers who brought on the crisis. Mr. Obama issued a moral reprimand but admitted helplessness. He did return to a marginally more equitable taxation regime, but his legacy finally was a more rapid growth of inequality, measured by the Gini coefficient, than during prior Republican tenures in the White House.

Research over the last two decades of soaring asset values has focused on how these influence consumer spending. In 2002, a member of the U.S. Federal Reserve Board, spoke of the "wealth effect" as a significant economic force in the U.S. and the United Kingdom. A 2012 study based on 37 years of data by future Nobel laureate Robert J. Shiller and associates, found consumption expenditure linked with both increases and decreases in housing equity. But there was little correlation detected between stock market wealth and consumption, which seemed counter-intuitive, since shares are a more liquid form of wealth than home ownership.

Household wealth as a multiple of income fell dramatically in 2008, when the financial meltdown hit. It then fluctuated at the lower level, before beginning a sustained rise from the first quarter of 2013. Through all four quarters of 2019, it was well above pre-meltdown peaks of 2008.

Trump and troubles

Both inequality and household debt have continued growing under Mr. Trump. Even before the novel coronavirus pandemic, credit card and automobile loan delinquencies were showing a troubling upward trend. Increasing asset prices in the context are a source of solace for households struggling to get by. Middle class anxiety could be measured in direct proportion to the size of the gap between household assets and liabilities. And when none of the political choices on offer has credible proposals that assuage these anxieties, they tend to be transformed into cultural and identity wars.

Mr. Trump was a candidate who disregarded conventional niceties to crudely articulate the status anxieties that many among the white middle class feel. He may have lost, but the 71 million votes he garnered – the most for any candidate, winning or losing, other than the person he actually lost to – shows that Trumpism still remains unvanquished.

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