Hochschule für
Wirtschaft und Recht Berlin
Berlin School of Economics and Law

Institute for International Political Economy Berlin

The twilight of neoliberalism in the USA?

Author: Trevor Evans

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Trevor Evans

Institute for International Political Economy

Berlin School of Economics and Law.

Abstract

The US economic expansion which began in 2009 was unusually prolonged but relatively weak. Profitability and investment strengthened between 2010 and 2015 but then began to falter. After Trump took office in 2017 there was a minor recovery in investment but the proceeds of major tax cuts were overwhelmingly used to finance pay outs to share owners. Unemployment fell steadily from 2010 but with a shift towards lower paid jobs. Median wages increased from around 2014, but while those for women had risen steadily since the 1980s, those for men only recuperated their 1980 level in 2018. By contrast, top incomes soared. The impact of the Covid-19 epidemic was partly cushioned by huge government spending programmes, but unemployment among less skilled workers increased strongly, while the massive monetary response led to an unprecedented bonanza for the rich. The Biden government's first major initiative extended unemployment benefits and promoted a national response to the health emergency, but failed to secure an increase in the national minimum wage to $15 an hour.

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Contact: Trevor Evans, evans@hwr-berlin.de

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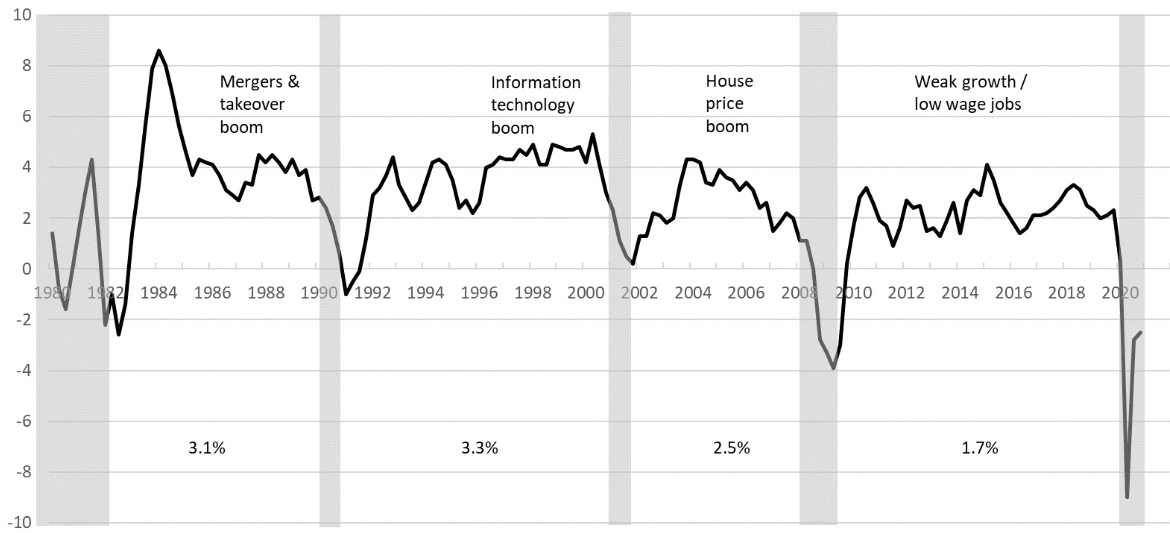
1. Introduction

Does the massive economic intervention by the government to counter the impact of the Covid-19 pandemic auger the end of the neoliberal epoch in the United States? The beginning of the regime is usually associated with the massive monetarist offensive launched by the Federal Reserve between October 1979 and late 1982. In the face of rising inflation, the Fed under its new boss, Paul Volcker, jacked up interest rates to almost 20 per cent, leading to a protracted recession and a sharp rise in unemployment. This effectively broke workers' ability to defend living standards and established the conditions for a steady rise in US corporate profitability and the start of what has been termed the new gilded age.[1]

Since the 1980-82 recession there have been four periods of economic expansion, as shown in Figure 1. The first, between 1983 and 1990, was associated with a major credit-financed merger and takeover movement, comparable with the great merger movement at the start of the 20th century, and fixed investment was low. It was brought to an end when overstretched banks abruptly cut their lending. The second expansion, between 1991 and 2000, was slow to pick up but eventually developed into the strongest period of investment and growth in the whole period. Rising profits generated a major stock market bubble, notably in the information technology sector, and when the bubble burst in 2000, it led to a sharp downturn. A major financial crisis was only avoided through massive intervention by the Federal Reserve.

Figure 1. US real GDP, 1980-2020 (% change over 4 quarters)



Source: Bureau of Economic Analysis, National Income and Product Accounts, Table 1.1.11. Shaded areas show NBER designated recessions. Figures show peak to peak average growth.

The following expansion, from 2002 until 2007, was somewhat weaker and driven by a housing boom which enabled home owners to finance increased consumption through borrowing against rising house prices. As is widely known, the collapse of highly complex financial instruments created to finance the housing boom detonated the most serious financial crisis since 1929 and the deepest recession since the 1930s. The most recent expansion began in 2009. It was driven primarily by a growth of consumption spending but was even weaker than the previous expansion. There were already signs that this expansion was drawing to a close when Trump became president in 2017, but

[1] See, for example, David B. Grusky and Tamar Kricheli-Katz (eds.), *The New Gilded Age. The Critical Inequality Debates of Our Time*, Stanford University Press, 2012.

a major programme of tax cuts – skewed overwhelmingly in favour of business and top earners – helped promote a limited revival of the expansion, but only briefly, and this was already weakening by 2019.

This paper will focus on economic developments in the US during the four years of the Trump government and the unprecedented economic impact of the Covid-19 pandemic in 2020. The US has registered the highest number of fatalities in the world and the extraordinary – if disorderly – response of the government was hampered by the antics of a president for whom winning the presidential election in the Autumn was always the highest priority. The paper concludes with a brief review of the key economic policy proposals of the incoming Biden government.

2. Trump's forlorn attempts to 'stop the steal'

During the Trump governments' first year it relaxed regulations for banks and pushed through a major programme of tax cuts which predominantly benefited the corporate sector and top earners. Nevertheless, in 2017 after Trump failed to condemn right-wing demonstrators in Charlottesville who had left one counter-demonstrator dead and many injured, the members of two high-profile business councils which Trump had called into being announced their resignations, and Trump disbanded them both. But relations with business quickly recovered and a new organisation, the American Workforce Policy Advisory Board, was created. According to the *New York Times*:

> Big business struck a Faustian bargain with President Trump. When he said something incendiary or flirted with authoritarianism, high-minded chief executives would issue vague, moralizing statements and try to distance themselves from a pro-business president who coveted their approval. But when Mr. Trump cut taxes, rolled back onerous regulations or used them as props for a photo op, they would applaud his leadership and grin for the cameras. By 2019, it was as if Charlottesville had never happened at all, and a new business advisory group was formed.[2]

New tensions emerged with the outbreak of the coronavirus epidemic in early 2020. Trump was initially highly dismissive of the virus despite warnings by the minister of health that the virus could kill up to two million and calls by the US Centre for Medical Intelligence for schools to be closed. Finally, after almost two months, and as the stock market began to plummet, Trump announced 'we are taking it unbelievably seriously'. A national emergency was declared but strategic reserves of medical supplies built up under Bush and Obama had been run down since Trump took office and, in the absence of any Federal coordination, state governments found themselves competing against each other for limited supplies of key medical resources. By the time Trump left office in January 2021, the US had registered 400,000 fatalities, by far the highest for any country. Workers employed in so-called front line occupations, where contact with other people could not be avoided, were particularly vulnerable and, as the death toll mounted, African Americans – who disproportionately staff many of these services – registered a fatality rate twice that of white citizens.[3]

At the presidential election in November, Trump obtained a record 74 million votes but, with an unusually high turnout, the Democratic Party contender, Joe Biden, won with 81 million votes. The election campaign was the costliest in history. Trump raised $774 million, while Biden obtained a

[2] 'After Riot, Business Leaders Reckon with Their Support for Trump', *New York Times*, 8 January 2021.
[3] For a detailed analysis see The Hamilton Project, *Ten Facts about COVID-19 and the U.S. Economy,* Brookings Institute, September 2020, Figures B1 and B2.

record $1,044 million dollars.[4] Support for the two candidates' parties has been summarised as follows:

> At the very top, both parties are beholden to the fire sector—finance, insurance and real estate. Below that, the two coalitions are distinct. The Republicans have solid support from 'dirty' manufacturing, the extractive industries, big retail, food services and large-scale family firms. The Democrats, in contrast, have strong support from the high-tech giants of Silicon Valley, the education, information, arts and entertainment sectors, and elite professionals.[5]

At the election, Biden had a strong lead among non-white voters and was also ahead among voters under 40 and among women with a college degree (men with college degrees voted narrowly for Trump, although by a much smaller margin than at the previous election). Trump, by contrast, was supported by some two thirds of white non-college educated voters (with especially strong support among men).[6]

Trump famously refused to accept the result of the election with what has been described as 'a conspiracy fuelled tirade against the integrity of the vote'.[7] Remarkably, some 70 – 80 per cent of his supporters were reported to believe the election had been stolen. As in his earlier business career, Trump launched an avalanche of juridical challenges to the results, but not one was successful. In an extraordinary sixty-minute phone call he repeatedly pressed the returning officer in Georgia – who recorded the call – to 'discover' the 11,780 votes necessary to overturn his defeat in the state.[8] But, unprecedentedly, 8 Republicans in the Senate, and 147 in the House of Representatives followed Trump and announced they would vote against certification of the election results.

In July 2020, in the aftermath of the police killing of George Floyd in Minneapolis, Trump had mobilised thousands of agents from the FBI and numerous other government agencies to contain a major Black Lives Matter demonstration in Washington. The (acting) head of the Department of Homeland Security said at the time: 'We will control the situation and protect the American people and the homeland at any cost.'[9] The situation was very different the following January when Congress met to confirm the results of the election. Trump, still claiming that he had won, urged a rally of supporters to march on the Capitol, leading to extraordinary scenes in which his supporters broke through the buildings' light police guard and forced members of Congress to take refuge behind locked doors. At the end of the day one policeman and four demonstrators were dead.

The lawlessness of Trump's supporters finally provoked tensions within the ruling bloc to emerge in the open. Following suggestions that Trump might seek a justification to mobilise the army, ten former secretaries of defence – including die-hard Republicans Dick Cheney and Donald Rumsfeld – published an unprecedented warning that the military should not be dragged into the electoral dispute. Immediately after the election, Trump had sacked his acting Secretary of Defence, Mark Ester, who had opposed using troops against the Black Lives Matter mobilisations in the summer. In mid-December, Trump's obedient long-serving attorney general, William Barr, announced his resignation after refusing to support the claims of electoral fraud. Then, following the occupation of the Capitol, a host of hangers on including three members of the cabinet and the deputy national security adviser

[4] Center for Responsive Politics, www.opensecrets.org/2020-presidential-race.
[5] Dylan Riles, 'Political Logics of the US Party System', *New Left Review*, no. 138, November-December 2020.
[6] For a detailed analysis of voting patterns see the exit poll conducted by CNN, https://edition.cnn.com/election/2020/exit-polls/president/national-results.
[7] 'Democratic ambitions reinforced as control of Senate inches within reach', *Financial Times,* 7 January 2021.
[8] 'I just want to find 11,780 votes', *Washington Post,* 4 January 2021.
[9] 'Trump deploys full might of Federal law enforcement to crush protests', *New York Times*, 3 July 2020.

also sought to abandon the sinking boat.[10] Numerous business organisations now professed to be outraged. The National Association of Manufacturers, which had applauded Trump's measures to promote lower taxation and regulatory rollback and welcomed him at its conference in 2017 as 'a true champion of our industry', now called for his removal from office.[11] Major companies suspended donations to the Republican Party and, in some cases, even called for Trump supporters in Congress to return money they had received.[12]

In December 2019, the House of Representatives had voted to impeach Trump for abuse of power – only the third time this had ever occurred to a sitting president. But not one Republican member of the House voted for the impeachment and it failed to gain a majority in the Republican controlled Senate. Following the storming of Congress, the House of Representatives again voted to impeach Trump – the first time ever that a US president has been impeached twice – this time with the support of 10 Republican members. In the event, although seven Republican Senators as well as all 50 Democrat Senators voted to impeach Trump, this did not amount to the two-thirds majority necessary to carry the impeachment and to make it possible to ban him from holding office again in the future.

3. Shifts in the state's policy stance

On taking office in early 2009 when the economy was still reeling from the impact of the financial crisis, the Obama government had immediately introduced a major programme of tax cuts and increased expenditure which eventually amounted to $830 billion. The fiscal deficit reached 11 per cent of GDP in early 2010 but then, as economic growth strengthened, fiscal spending began to decline while tax revenues began to rise, and by 2016 the deficit had fallen to around 4 per cent of GDP.[13] After Trump became president in early 2017, government expenditure remained around 33 per cent of GDP through until the start of 2020, although there was some shift in the composition of expenditure, most notably an increase in military expenditure.[14] At the end of 2017, Trump's government introduced a major programme of tax cuts, benefitting above all business and top incomes.[15] As tax revenues declined, the fiscal deficit registered a small but steady rise, from 4.8% of GDP in early 2017 to 6.3% in late 2019.

[10] In total, 14 cabinet members left office under Trump, nearly all 'under pressure'. This compares with 2 under J.W. Bush and 3 under Obama. Since 1980, the second highest had been H.W. Bush with 8 departures. See Kathryn Dunn Tenpas, 'Tracking turnover in the Trump Administration', Brookings Institute, January 2021.

[11] 'Loyal to Trump for Years, Manufacturing Group Now Calls for His Removal', *New York Times*, 10 January 2021.

[12] 'Republican party alarmed by backlash from donors', *Financial Times,* 14 January 2021.

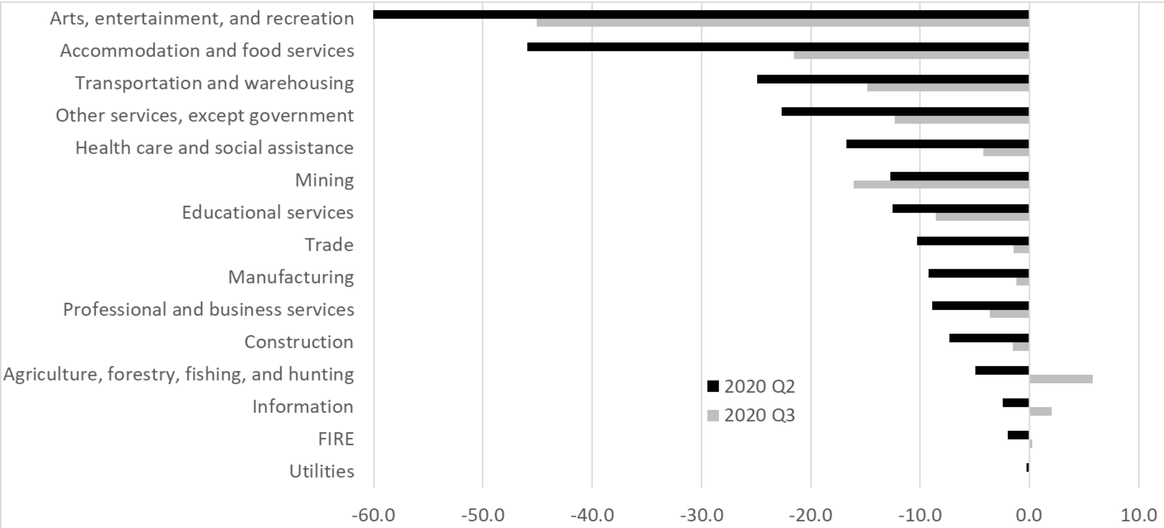
[13] National Income and Product Accounts, Table 3.1.

[14] Military expenditures, which had been falling under the Obama government, increased by $124 billion between 2016 and 2019, while non-military Federal expenditure rose by a more modest $60 billion (National Income and Product Account, Table 3.9.5, lines 17 and 25).

[15] The tax rate for corporations was reduced from 35% to 21%, with accelerated rules for the depreciation of capital, a shift to the territorial taxation of multinational companies and a special rate for the one-off repatriation of multinational's profits held abroad. The impact varied quite widely depending on the impact of the different provisions, but the overall amount of tax paid fell by 18% between 2016 and 2018, with larger companies benefitting most. See Alexander F. Wagner, Richard Zeckhauser and Alexandre Ziegler, 'The Tax Cuts and Jobs Act: Which Firms Won? Which Lost?', Mossavar-Rahmani Center for Business & Government, Harvard Kennedy School, Working Paper 2020-02. Tax rates for personal income were also reduced, with the rate for top incomes reduced from 39.6% to 37%. For details, see Tax Policy Centre, 'How did the Tax Cuts and Jobs Act change personal taxes?', 2020.

The onset of the Covid-19 pandemic resulted in the most dramatic decline in US output since the 1930s. Between the final quarter of 2019 and the second quarter of 2020, when the pandemic had its greatest economic impact, the output of private firms fell by 10.2%. As Trump, following calls by numerous business leaders, pressed for the economy to reopen, there was then a sharp rebound in the third quarter of 2020, but output was still 3.6% lower than at the end of 2019. The impact on different sectors of the economy varied widely, as shown in Figure 2. While output in manufacturing and construction had almost recovered by the third quarter, and the information sector and agriculture had actually expanded, many other sectors continued to register exceptionally large declines.

Figure 2. Decline in real GDP by industry group from 2019 Q4 to 2020 Q2 and 2020 Q3 (%)



Source: Bureau of Economic Analysis, Gross Domestic Product (Third Estimate), Corporate Profits (Revised), and GDP by Industry, Third Quarter 2020, December 2020, Table 14.

The government responded to the impact of the pandemic with a massive increase in spending. At the end of March, Congress approved a $2 trillion stimulus programme, the Coronavirus, Relief and Economic Security (CARES) Act. This included a $600 per week increase in unemployment benefits and one off payments of $1,200 for everyone earning less than $75,000 a year with an additional $500 for each child aged under 17.[16] It also included $350 billion in support for businesses employing less than 500 workers, $454 billion for emergency lending to businesses, states and cities, and $46 billion for airlines, air-cargo companies and Boeing.[17] As a result of this huge increase in spending the fiscal deficit increased to an unprecedented 29 per cent of GDP in the second quarter of 2020. When the initial funds were largely exhausted, the Democrat controlled House of Representatives approved a further $3 trillion programme in May 2020. This would have extended protection for workers but was opposed by the government and the Republican controlled Senate, which insisted any new

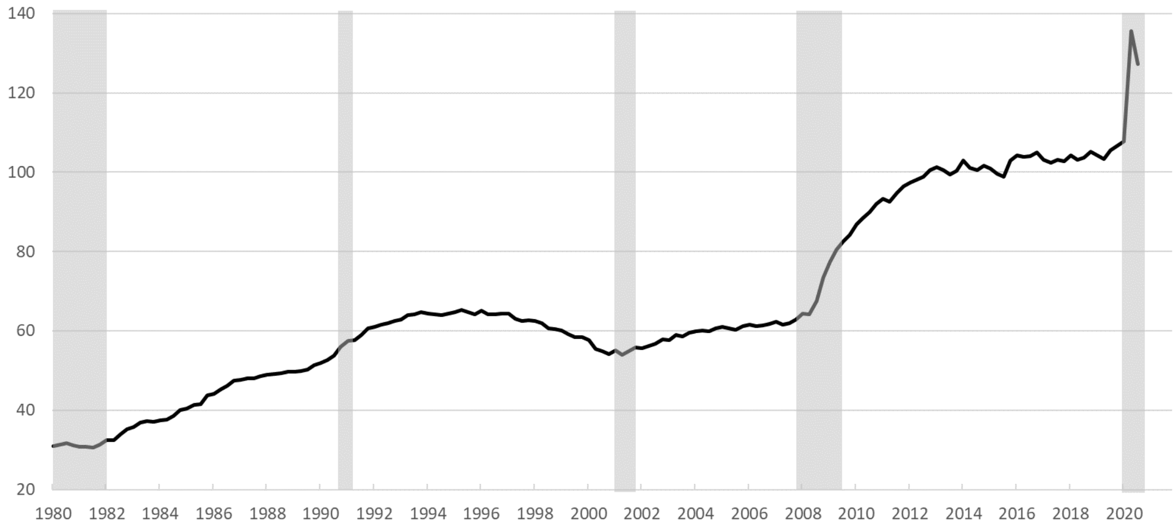
[16] Reduced payments were made to individuals earning above $75,000 a year up to a maximum of $98,000.

[17] For details of the Coronavirus, Relief and Economic Security (CARES) Act, see Tax Foundation, 'Congress Approves Economic Relief Plan for Individuals and Businesses', 30 March 2020. The $454 billion for emergency lending to businesses was leveraged, to provide the Fed with cover against losses for lending amounting to some $4 trillion. See 'How the Fed's magic money machine will turn $454 billion into $4 trillion', *New York Times*, 27 March 2020. The $46 billion carried strict conditions, including maintaining 90% of jobs. Boeing avoided these conditions by raising $28 billion funds in the bond market when it recovered and, shortly after, announced plans to cut 12,000 jobs. For a critical account of the CARES Act's huge corporate bail out, and the support it received from Democrats (with the honourable exception of Alexandria Ocasio Cortez), see Robert Brenner, 'Escalating Plunder', *New Left Review,* No. 123, May-June 2020.

programme should prioritise support for business. However, as the pandemic intensified again later in the year, in December 2020 Congress finally agreed a new compromise package of support worth some $900 billion, which included a payment to individuals of $600 and extended unemployment benefits through to March 2021.[18]

Government borrowing at the time of the financial crisis had pushed its debt up from 62% of GDP in 2008 to just over 100% by 2012, as shown in Figure 3. Between 2013 and 2019, this figure remained relatively stable as debt rose roughly in line with GDP, although it edged up slightly following the Trump government's tax cuts. The massive rise in borrowing in response to the Covid-19 emergency then drove government debt up to an unprecedented 140% of GDP -- even higher than its previous peak at 114% at the end of the Second World War. With very low interest rates, debt service remained muted, but as longer-term rates begin to edge up, debt service payments will present a greater challenge.

Figure 3. US government debt, 1980-2020 (% GDP)



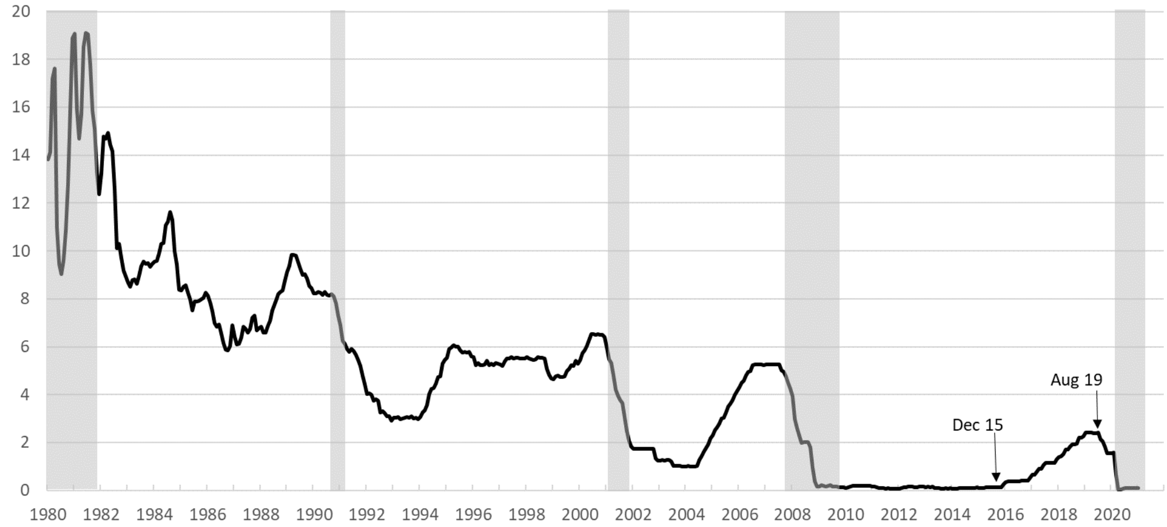
Source: Board of Governors of Federal Reserve, Series LA314104005. Shaded areas show NBER designated recessions.

The Federal Reserve had lowered the target for its key interest rate to 0-0.25% (in effect 0%) in 2008 in response to the financial crisis but, given what it took to be greater financial stability, in 2015 it cautiously began to raise the rate in small steps and by 2019 the target range had reached 2.00-2.25%, as shown in Figure 4. As growth began to slow, the Fed once again began to reduce the rate in August 2019, although in mid-September there was a brief but completely unexpected jump in the rate which took the Fed completely by surprise.[19] Then with the onset of the corona pandemic, it cut rates by 0.5% at the beginning of March 2020 and a full 1% in mid-March, bringing the effective rate back to 0%.

[18] The package also included exceptionally generous tax breaks for business, including some that had been rejected by Treasury Secretary Mnuchin in March. See 'Buried in Pandemic Aid Bill: Billions to Soothe the Richest', *New York Times,* 23 December 2020.

[19] The sharp rise in the Federal Funds rate on 16 and 17 September 2019 was subsequently attributed by the Fed to a sudden fall of some $120 billion of banking system reserves due to companies withdrawing large sums to meet quarterly corporate tax payments, and the simultaneous settlement of sales at Treasury auctions. See, FEDS Notes, 'What Happened in Money Markets in September 2019?', 27 February 2020.

Figure 4. US Federal Reserve federal funds rate, 1980-2020 (%)



Source: Board of Governors of Federal Reserve, Table H 15, effective monthly average rate. Shaded areas show NBER designated recessions.

The Fed also initiated an unprecedented monetary expansion. It had responded to the 2007-09 recession with three phases of so-called quantitative easing, pumping money into the financial system by buying financial assets, and pushing up the supply of central bank reserves from $780 billion in 2007 to $4.2 trillion by 2014.[20] Between October 2017 and September 2019 the Fed began to cautiously reduce its holdings but when financial tensions re-emerged in September 2019, the Fed began to expand the supply of reserves again, initially in small steps. Once it became clear that the impact of the epidemic raised a major challenge for financial stability, the Fed responded on a massive scale, propping up domestic credit markets and providing swap lines to 14 other central banks – a move which strengthened the key international position of the dollar. The Fed purchased an unusually wide range of financial assets, including some that it had previously been barred from holding, such as exchange traded funds which hold so-called junk bonds. The Fed's response pushed up the supply of reserves to an extraordinary $7 trillion – equal to 34% of GDP – amid rising concern from more conservative commentators about the dangers for inflation and financial stability. For wealth owners, the impact of this monetary expansion on the value of financial assets provided an unprecedented bonanza.

4. The impact on corporate America

The US corporate sector displays a strongly cyclical pattern of profitability, rising at the start of each period of economic expansion and beginning to decline before the onset of the following recession. Since the 1990s, the share of profits in GDP has risen to a higher and higher peak in each cycle, as shown in Figure 5.[21] As in previous cycles, profitability increased strongly from the start of the most-recent expansion in mid-2009, and continued to rise until the end of 2014. From 2015 it then began to decline, driven by the figure for non-financial corporations, and it continued to decline for a full five

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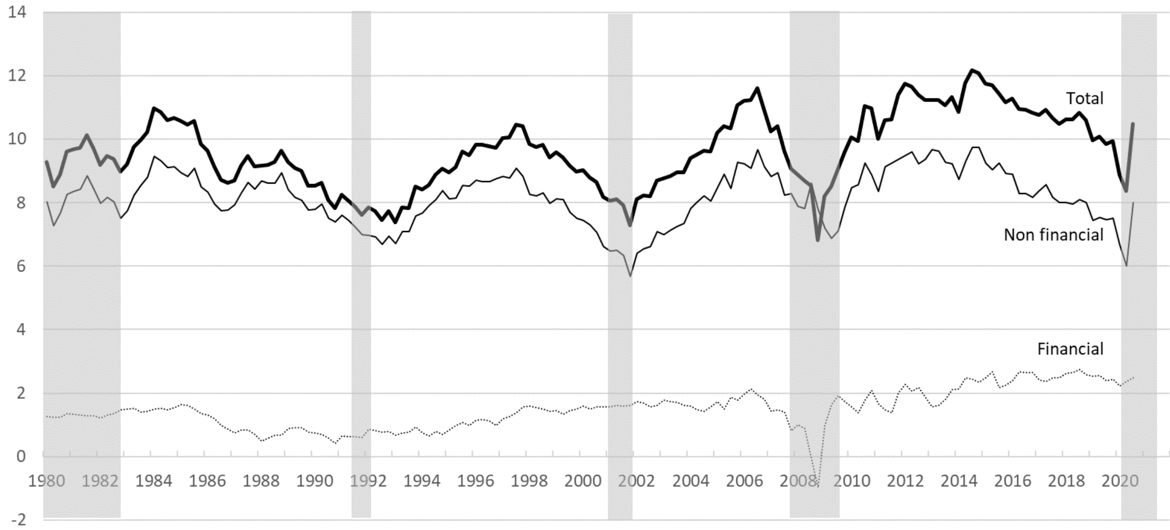
[20] The figures in this paragraph are from Board of Governors of the Federal Reserve, H.4.1 Factors Affecting Reserve Balances, Table 5.

[21] Measured as a share of GDP, profitability in 2014 was slightly higher than at the previous peak in 2006. If profitability is measured as the rate of return on fixed capital, it demonstrates the same pattern as shown here, but the peak in 2014 is slightly lower than the previous peak in 2006 (this holds for fixed capital measured at both historic and current cost).

years – much longer than in previous cycles. In the first two quarters of 2020 this was followed by an even sharper fall in profitability as output fell following the outbreak of the Covid-19 epidemic, although after the initial lockdown ended in the summer, profits rebounded partially in the third quarter.

Figure 5. US corporate business profitability, 1980-2020 (% GDP)



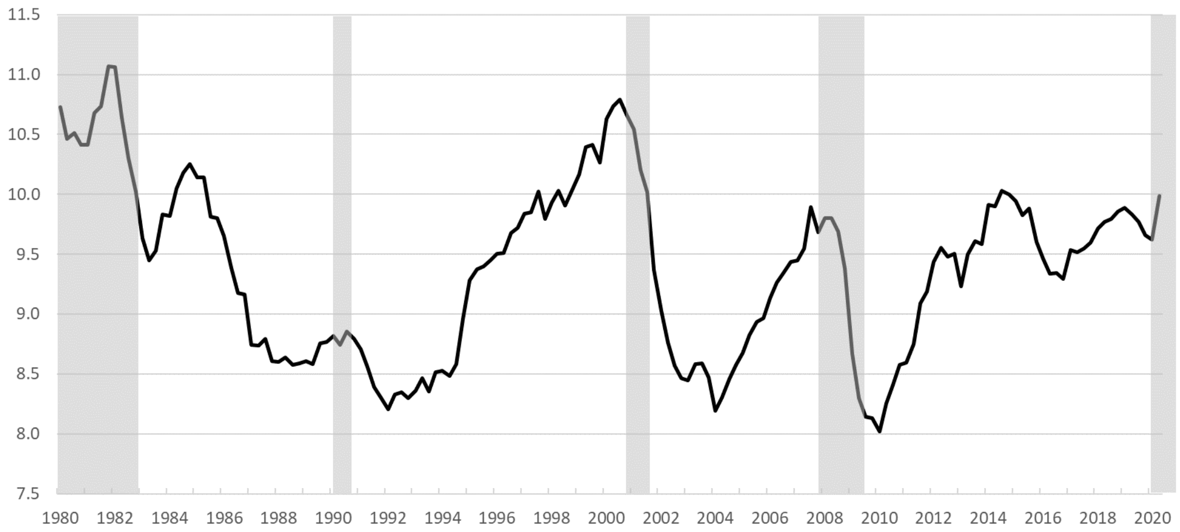
Source: Bureau of Economic Analysis, National Income and Product Accounts, Table 1.14, net operating surplus. Shaded areas show NBER designated recessions. Note: GDP for 2019 Q4 has been used as denominator throughout 2020.

The rise of profitability after 2009 was accompanied by a rise in corporate investment. This was comparable with the upturn in investment in the early 2000s, but considerably weaker than in earlier cycles, as shown in Figure 6. Furthermore, while investment strengthened between 2010 and the start of 2015, it then began to weaken – often the harbinger of a new recession – although there was a limited revival in 2017 and 2018, the first two years of the Trump administration. Despite the major reduction in corporate taxation from 2018 – supposedly to encourage greater investment – the decline in investment resumed in 2019.[22] A detailed study by the International Monetary Fund concluded that the reduction in tax rates had had only a limited impact on investment intentions, and that 80% of the benefits of the 2017 tax cuts were actually spent on share repurchases and only 20% on fixed investment or research and development.[23] In the first half of 2020, with the onset of the recession, investment then fell sharply, although – like profits – it registered a partial rebound in the second half of the year.

[22] According to Alexander F. Wagner, Richard Zeckhauser and Alexandre Ziegler, 'The Tax Cuts and Jobs Act: Which Firms Won? Which Lost?', Mossavar-Rahmani Center for Business & Government, Harvard Kennedy School, Working Paper 2020-02, the total tax paid fell by 16% between 2016 and 2018. They also found that the reduction tended to be greater for larger companies. According to the National Income Accounts, Table 1.14, tax payments by non-financial corporations fell by 24% between 2016 and 2018, and by 18% between 2016 and 2019.

[23] Emanuel Kopp, Daniel Leigh, Susanna Mursula, and Suchanan Tambunlertchai, 'US investment since the 2017 Tax Cuts and Jobs Act', IMF WP/19/120, May 2019, p. 29.

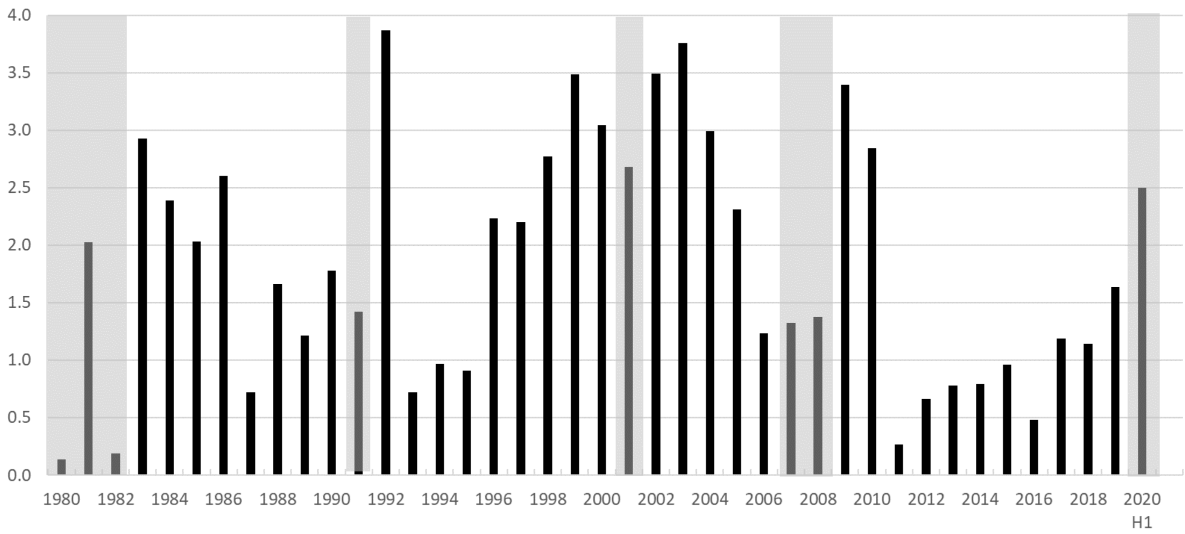
Figure 6. US non-financial corporations' gross fixed investment, 1980-2020 (% GDP)



Source: Federal Reserve, *Financial Accounts,* Table F 103, Series FA105019005. Shaded areas show NBER designated recessions.

While investment did strengthen in the most recent expansion, particularly between 2011 and 2015, the growth of labour productivity was unusually weak, as shown in Figure 7. After an initially strong rise in 2009 and 2010 as firms shed labour, productivity growth then remained very low through to 2019, with an average over the period of only 0.8% a year. In 2020 productivity growth did rise but this was principally due to the large reduction in employment, in particular of lower-skilled workers who contribute less to the statistical measure of value added.

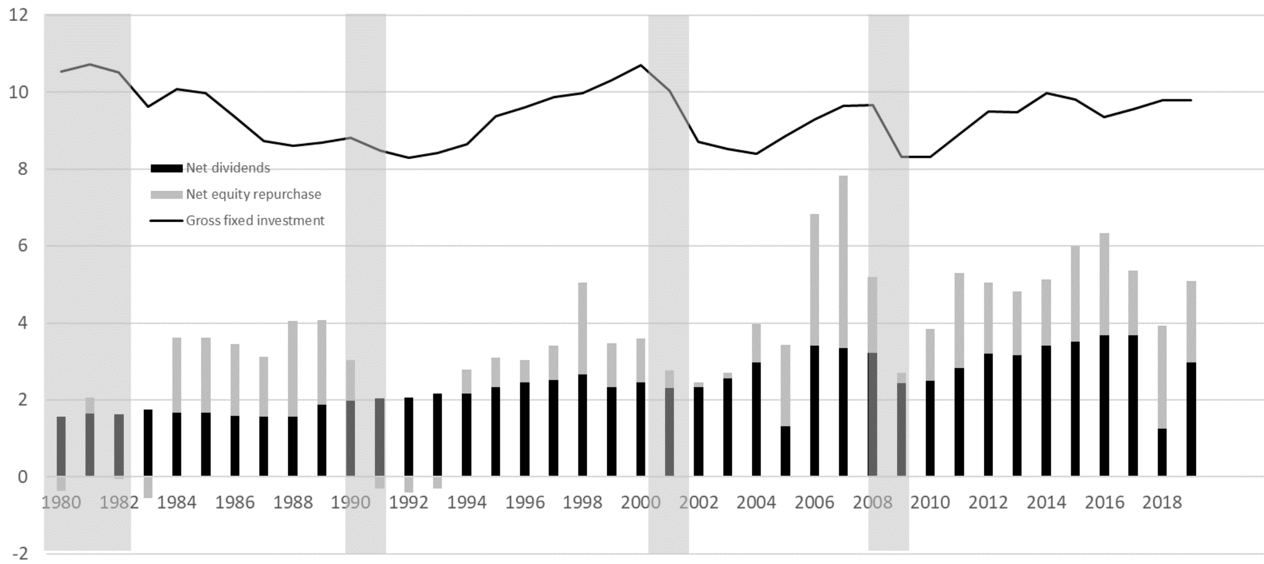
Figure 7. US labour productivity growth, 1980-2020 (annual % change)



Source: The Conference Board, *Total Economy Database*, May 2020, row 1654. Shaded areas show NBER designated recessions. Figure for 2020 is for first half of year.

Although profitability was high during the most recent expansion, and investment was relatively subdued, corporate borrowing increased strongly between 2010 and 2015, and continued to grow albeit at a lower rate between 2016 and 2019. An important factor which contributed to the high level of borrowing was that companies continued to respond to the strong pressure from shareholders to maintain high levels of pay-outs, which are shown in Figure 8. Dividend payments continued to be high, accounting for a slightly higher share of GDP than prior to the onset of the financial crisis in 2007.[24] In addition to the high level of dividend payment, companies also continued to distribute very large sums to share-holders through share buybacks, which are taxed at a lower rate than dividends.[25] As in previous years, the key beneficiaries were the corporate executives who receive a substantial part of their remuneration through share options. Figure 8 demonstrates how the value of corporate pay-outs to shareholders has risen from around 20% of gross fixed investment in the early 1980s to around 50% in the most recent expansion.

Figure 8. US non-financial corporations' dividends and share repurchases, 2010-2019 (% GDP)



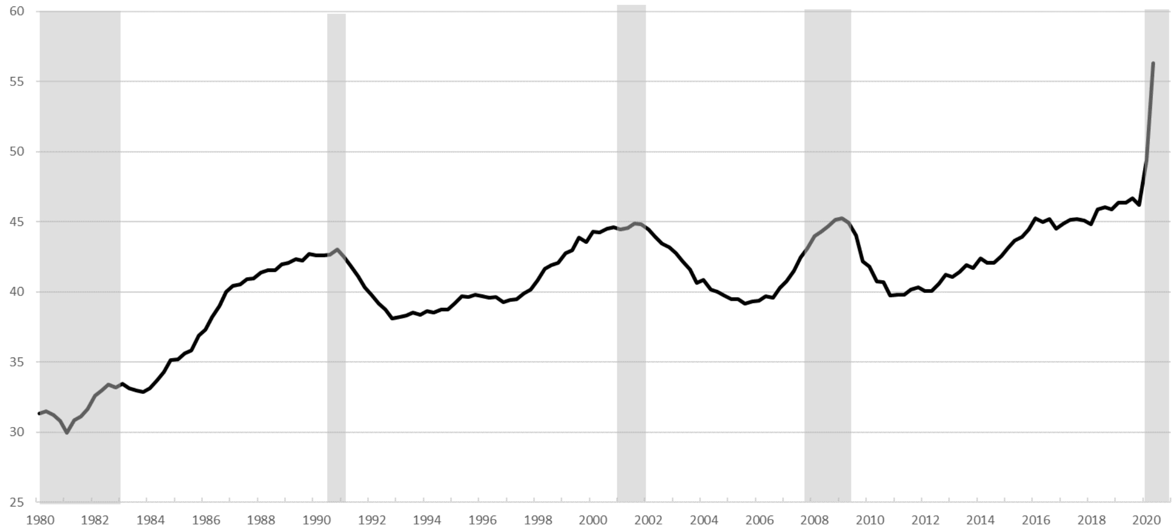
Source: Federal Reserve, *Financial Accounts,* Table F 103. Figures for 2019 are first half. Shaded areas show NBER designated recessions

Following the onset of the pandemic in 2020, non-financial corporations were able to borrow unprecedented sums as a result of the rescue plans launched by the government in March. The Main Street Lending Programme, funded by the government and managed by the Fed, provided $600 billion for loans to medium sized companies. The government originally announce that there would be limits on the amount that each company could borrow, but these were quickly abandoned.[26] Controversially, when the loans were launched, many corporations seized the opportunity to borrow substantial sums at very advantageous rates, even though they had only recently returned large sums to shareholders through share buy-back schemes.[27] However, only a small part of the allocated funds were drawn on and, despite strong opposition from the Fed, the Treasury refused to extend the programme when it expired in January 2021.

[24] The figure for dividends in 2018 was reduced by the need to pay tax on the large inflow to the US of repatriated profits by US multinational companies following the Trump government's changes to tax law at the end of 2017.
[25] Until the Security and Exchange Commission changed its rules in 1982, share buy-backs were illegal.
[26] The original limit was that loans should not push debt above six times earnings before interest, tax, depreciation and amortisation. ('Companies are dangerously drunk on debt', *Financial Times*, 7 May 2020). The programme was also extended in July to include some non-profit organisations such as hospitals and universities.
[27] 'Some Companies Seeking Bailouts Had Piles of Cash, Then Spent It', *New York Times*, 24 April 2029. In the three years from 2016 to 2019, companies spent $2 trillion on share buy-backs and reduced the size of their cash buffers. Amidst companies pleading for support, American Airlines had spent $13 billion on dividends and share buybacks; Boeing has spent nearly $53 billion.

The Paycheck Protection Program was initially set up in with $350 billion to provide support for Small Businesses, which are defined as those employing up to 500 workers and some of which are therefore quite large. The programme was swamped with applications and many smaller companies complained that they had been unable to gain access as larger companies took advantage of their connections with the banks who managed the programme to gain access to the funds.[28] If the money was used to pay wages and certain other expenses, it did not have to be paid back. At the end of April, the Treasury announced that it was trying to recoup hundreds of millions of dollars from big firms who had received funds through the programme.[29] The programme was extended with a further $310 billion in April 2020 and a new round of $284 billion was launched in January 2021.

Figure 9. US non-financial corporations' debt (% GDP)



Source: Federal Reserve, *Financial Accounts*, Table D3, Series LA104104005. Shaded areas show NBER designated recessions.

The huge rise in borrowing in response to the Covid-19 induced downturn has led to non-financial corporations' debt rising dramatically, as shown in Figure 9. Measured in relation to GDP, debt had declined in 2009 and 2010 as companies slashed investment and borrowing in response to the recession and the acute financial crisis. From 2011, however, as strong borrowing resumed, indebtedness began to rise again. By 2015 the debt ratio had returned to the peak value in 2009 and it continued to rise, albeit more slowly from 2015, reaching a new peak at the end of 2019 with debt equal to $10.0 trillion – a record 46.2% of GDP. But then, with the outbreak of the pandemic, the further huge increase in borrowing drove non-financial corporate debt up by a further $1 billion, to reach an unprecedented $11 trillion, equal to 56.3% of GDP.

Trump's key mantra before his working-class audiences was that he would 'make America great again'. In fact, the rise in investment which began in 2010 peaked in 2015 and, despite a brief upturn, the share of corporate fixed investment in GDP remained below the figure for 2015 through until 2019. Trump's signature programme of corporate tax cuts – perhaps predictably – did not promote an upturn in fixed investment but, rather, were predominantly used to finance pay-outs to share-holders. The scale of these payments was so large that corporate indebtedness began to edge upwards and

[28] 'Small businesses miss out on rescue loans as larger rivals grab lion's share', *Financial Times*, 21 April 2020.
[29] 'Treasury Vows to Recoup Virus Relief Aid Claimed by Big Companies', *New York Times*, 29 April 2020. More than 100 companies had disclosed loans of more than $2 million; 22 companies said they had returned the money.

had already surpassed previous peaks, even before the impact of the Covid-19 induced downturn in 2020.

5. Turmoil in financial markets

As is well known, financial institutions, financial markets and highly-complex financial instruments have steadily strengthened their position in the US economy since the 1980s. This is reflected in the share of total profits appropriated by financial institutions, which increased from around 10% in the early 1990s to reach 25% in 2018 and 2019, as can be seen above in Figure 5. This growth was, nevertheless, interrupted in 2001 following the collapse of the stock market boom and, even more strongly, at the height of the financial crisis in 2008, when the sector as a whole actually registered a loss. In the aftermath of the financial crisis, the Obama government introduced a major new Banking Act in 2010. This, together with the new Basel III international rules agreed in 2010 which raised capital requirements for banks, introduced a wide range of new regulations intended to promote greater financial stability.

In 2017 during the Trump government's first year in office, the Treasury published plans to ease the new regulations with a large number of changes, some of which were small but some of which were more substantial.[30] The following year, Congress approved a new banking law which implemented many of these proposals, reducing capital and other requirements for all but the very largest banks.[31] In May 2019, the Financial Stability Oversight Council, which had been established by the 2010 Act, announced that it planned to stop designating four non-bank financial groups as systemically important. This included AIG which was supposedly an insurance company but which had had to be rescued in 2008 at enormous cost due to huge losses on derivatives trades. The Oversight Council's change prompted two previous Treasury secretaries (Jacob Lew and Timothy Geithner) and two previous Federal Reserve chiefs (Ben Bernanke and Janet Yellen) to warn that the move could seriously threaten US financial stability.[32] Shortly after, in November 2019, the Fed voted to lighten regulations for all but the largest banks (although large banks would in future only have to submit so-called living wills every two years instead of every year). These changes, which were highly welcomed by the banks, included an easing of the so-called Volcker rule, which aimed to restrict banks' ability to speculate with customers' deposits.[33]

The economic uncertainty unleashed by the coronavirus pandemic led to major financial turmoil in March 2020. This emerged most dramatically in the market for US Treasury securities, the largest and deepest bond market in the world. In early March the market was hit by a wave of selling that led to wild swings in prices which made it difficult to execute transactions. Faced with the onset of the Covid-19 crisis, there was a frenzied dash for cash by companies, foreign central banks and investment funds, which all sought to sell Treasuries, which were their most liquid asset.[34] Faced with the threat of a breakdown in the market, the Federal Reserve intervened on a massive scale, reactivating the programme of buying government bonds which it had introduced in 2008 at the time of the financial

[30] US Department of the Treasury, *A Financial System That Creates Economic Opportunities*, June 2017.

[31] For a brief summary of the changes see 'How White House rolled back Financial Regulations', *New York Times,* 7 November 2020.

[32] 'Former Top Financial Regulators Warn Against Move to Ease Oversight of Firms', *New York Times,* 14 May 2019.

[33] 'Fed Votes to Lighten Regulations for All but the Largest Banks', *New York Times,* 11 October 2019.

[34] According to a subsequent report by the Financial Stability Board, foreign investors (principally central banks) sold some $300 billion of Treasury bonds and this was exacerbated by hedge funds unwinding trades to the value of $90 billion. See FSB, *Holistic Review of the March Market Turmoil*, November 2020.

crisis. On 15 March 2020, the Fed announced that it would intervene and buy a least $500 billion of Treasury securities. Then on 23 March it said it would buy whatever was necessary to ensure the smooth functioning of the market. As conditions stabilised in April and May, it reduced its purchases, but in May it announced that, until further notice, it would buy at least $80 billion a month in Treasury securities, and $40 billion of residential and commercial mortgages. As a result, between mid-March and early December, the Fed's outright holdings of securities climbed from $3.9 trillion to $6.6 trillion.[35] The Fed also launched two programmes which would enable it – for the first time – to lend directly to US corporations.[36] For wealth owners, who had been facing an abyss, the injection of such massive amounts into financial markets was like mana from heaven as asset prices were driven to unprecedented heights.

Banks, which had been registering record profits before the onset of Covid-19, were initially hard hit by the sharp economic downturn in 2020. The reduction in interest rates together with loan losses and a decline in income from securities trading led to a sharp fall in profits. At the behest of the Fed, eight of the largest banks applied for loans from the Fed's discount window, in an attempt to dispel the stigma which many banks feared was associated with the need to take such loans.[37] The Fed also pushed the big banks to draw on the capital buffers which they had been required to build up as part of the regulations instituted after the financial crisis. Faced with the prospect of large losses, the big banks ceased share-buy backs in March, and in July the Fed imposed a ban on such buy-backs until the end of the year, with tight restrictions on how much banks were allowed to pay in dividends. Nevertheless, as non-financial companies began to raise large sums on the bond market in order to tide them over the corona crisis, investment banks were able to generate substantial fees. Once the massive bail out by the Fed began to revive financial markets, investment banking registered a remarkable boom in activity, and this proved unexpectedly profitable for the big banks which accounted for a lion's share of the business.

The net income of the top 50 banks had fallen from $44.4 billion in the final quarter of 2019 to $16.1 billion in the first quarter of 2020 and $19.9 billion in the second quarter, but by the third quarter earnings had bounced back to $45.6 billion.[38] When the biggest banks published their results for the final quarter, they indicated that – although they still expected losses on some loans – they were reducing their loss provisions. JPMorgan, the biggest of the banks, drew down $2.4 billion from its reserve to achieve a record $12 billion profit in the final quarter; Citigroup drew $1.5 billion from its reserve to obtain a profit of $4.6 billion, slightly down on the fourth quarter of 2019; Wells Fargo released $757 million from its reserves to register profits of $3 billion in the final quarter, slightly more than in the same quarter of the previous year.[39] The six biggest banks also announced plans to spend $10 billion on resumed share buy-backs, close to the maximum allowed by the Fed.[40]

[35] The Fed also reactivated two programmes initially launched at the time of the financial crisis in 2008, the Primary Dealer Credit Facility, which provides loans for dealers in the government bond market, and the Money Market Mutual Fund Liquidity Facility, which lends to banks against securities they purchase from money market funds. For details of these and a host of other programmes launched by the Federal Reserve, see 'What's the Fed doing in response to the COVID-19 crisis? What more could it do?', Brookings Institution, 25 January 2021.

[36] The Primary Market Corporate Credit Facility allows the Fed to buy new bond issues and provide loans. The Secondary Market Corporate Credit Facility allows the Fed to buy existing bonds as well as exchange-traded funds which invest in sub-investment grade bonds.

[37] 'As Market Convulses, Big Banks Plan to Borrow Funds from Fed', *New York Times,* 17 March 2020.

[38] 'Financial Statistics for Large BHCs and Banks' in Federal Reserve Bank of New York, *Quarterly Trends for Consolidated U.S. Banking Organizations*, various issues.

[39] 'With Vaccines and Stimulus on the Way, Banks Brighten Their Outlook', *New York Times,* 16 January 2021.

[40] 'US banks set to embark on $10bn round of buybacks', *Financial Times*, 11 January 2021.

Shadow banks, which effect credit intermediation but are not regulated as banks, and which consequently are not subject to requirements to hold reserves of capital, expanded rapidly from the 1980s, overtaking bank assets from the mid-1990s until 2007.[41] Following huge losses at the time of the 2008 financial crisis, the Fed stepped in to rescue many shadow banking institutions – despite the lack of any legal obligation – so as to prevent the crisis deepening even further. Shadow banking assets contracted by over one third at the time of the crisis although they subsequently began to expand again. The onset of Covid-19 in March 2020, however, set off another major shift of funds out of shadow banking institutions.[42]

One key area involved prime money market funds which provide investors with a pool of short-term corporate securities that offer a higher return than interest bearing bank accounts. The Fed had had to rescue them in 2008, and subsequently obliged them to institute reforms. In March 2020, there was a sudden and unexpected flight from prime funds as investors shifted over $100 billion to safer government bond funds. The prime funds had provided critical short-term funding for large corporations and banks and the run disrupted their funding, obliging the Fed to revive the Commercial Funding Facility, originally deployed in 2008, to restore the market.

The financial stress also hit mortgage real estate investment trusts, funds which invest in packages of mortgage backed securities. In mid-March, banks refused to roll over loans to the trusts unless they posted more collateral. This forced the trusts to sell some of their mortgage backed securities and, as the sales led to a fall in their price, it generated a spiral in which the trusts had to sell yet more securities. Again, the Fed intervened and from mid-March established permanent open market operations to accommodate the sales of the securities.

An important development since the 2008 financial crisis has been the increasing significance of asset-management funds.[43] The so-called 'big three' – BlackRock, Vanguard and State Street – managed assets of some $13 trillion in 2019 and, together, they hold about one-fifth of the shares in the top 500 companies on the US stock exchange. They are associated with the growth of exchange traded funds (ETFs) which amounted to about $6.4 trillion at the end of 2019. Unlike mutual funds, which actively try to select winners, ETFs simply track a group of bonds or equities, usually based on an index such as the S&P 500. Because they have lower costs they charge significantly lower fees and, by 2019, passive funds accounted for more than half of funds under management. However, because ETFs are based on following market trends they are especially vulnerable when markets turn down. As a result, they were badly hit by the panic selling in March 2020 and the big three made large losses on their funds. One of the Fed's initiatives in response to the meltdown was to set up a fund to support corporate bonds and ETFs. Controversially, however, the Fed handed the management of the rescue fund to … BlackRock's own consultancy arm!

[41] Official sources generally no longer refer to shadow banking, presumably because the term is thought to have acquired a pejorative connotation. Instead, the term non-bank financial institutions is used, although this actually includes large financial institutions such as pension and insurance funds which are not involved in shadow banking activities. Many shadow banking institutions are actually owned by the big banks, which conduct business through them precisely to avoid the cost of maintaining capital reserves.

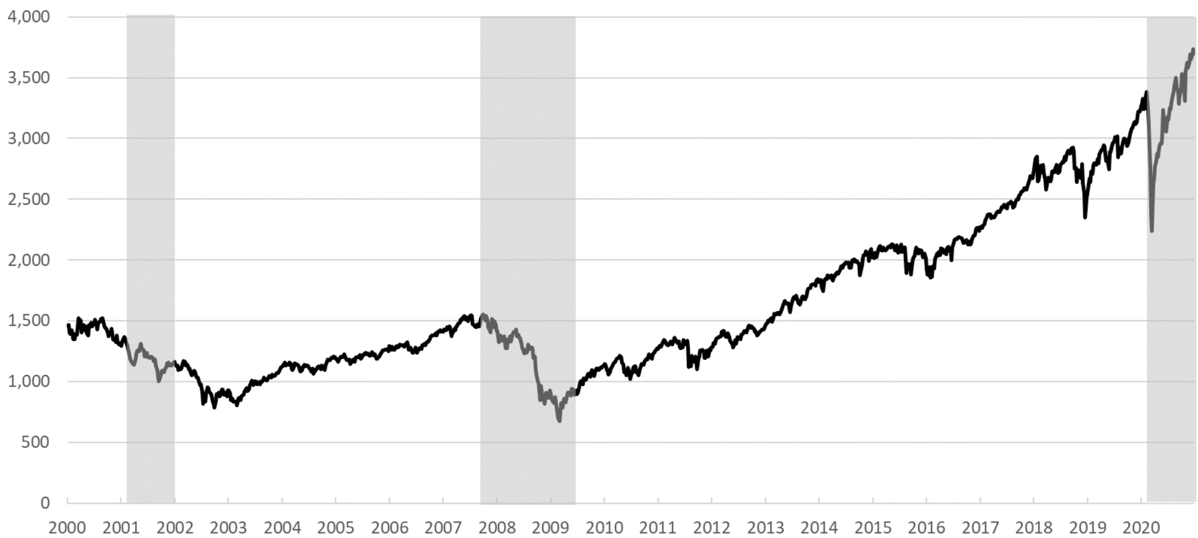
[42] The following draws on 'The Global Pandemic and Run on Shadow Banks', Federal Reserve Bank of Kansas City, *Economic Bulletin,* 11 May 2020. For more details of the impact of the financial market turmoil on shadow banks, see Office of Financial Research, *Annual Report to Congress,* 2020, pp. 73-77. Non-bank financial intermediary assets fell from $70 to $65.8 billion in the first quarter of 2020.

[43] This paragraph is based on Ramaa Vasudevan, 'How big finance is making a killing from the pandemic', *Jacobin,* 6 November 2020.

A much more recent development, which highlights the huge amount of capital that have been pumped into the economy by the government and the Fed, and which is now seeking profitable investments, is the rapid growth of Special Purpose Acquisition Companies (Spacs). These are also referred to as 'blank cheque' companies as they raise capital from a public listing and then hunt for a private company to acquire and take public. In 2020, over 250 Spacs listed in the US and were responsible for raising $78.7 billion, half the total raised in initial public offerings. There has been considerable criticism of Spac founders for the exceptionally generous compensation they receive.[44]

The huge sums pumped into the economy have also been reflected in the stock market. The stock market had registered a sharp decline in 2008 at the time of the financial crisis, but from the end of the recession in 2009 it began to recover and stock market values registered a strong upward trend until early 2020. However, as can be seen in Figure 10, in mid-February 2020 values began to fall and this accelerated very sharply in the first half of March, registering a total decline of 30 per cent by mid-March – the largest decline ever registered in such a short space of time. At this point, the massive intervention announced by the Fed succeeded in braking the fall. Under the impact of the massive sums of money pumped into the economy, the stock market not only recovered, it continued to rise – and this despite the fact that, although output and profits did begin to recuperate in the second half of the year, they remained below their values in 2019.

Figure 10. US S&P 500 stock index, 2000-2020



Source: S&P Dow Jones Indices, monthly average. Shaded areas show NBER designated recessions.

Robert Shiller's widely quoted price/earnings index recorded a value of 33.7 in January 2021, well above the long-term average of around 20, and even slightly above the peak of 32.6 recorded in 1929, although still below the peak of 44.2 in 2000.[45] Some commentators have argued that the high stock market values reflect the underlying prospects for the US economy.[46] However, the high valuation remains very dependent on massive fiscal support and exceptionally low interest rates. If these conditions are not sustained, the market could face the prospect of a significant 'correction'.

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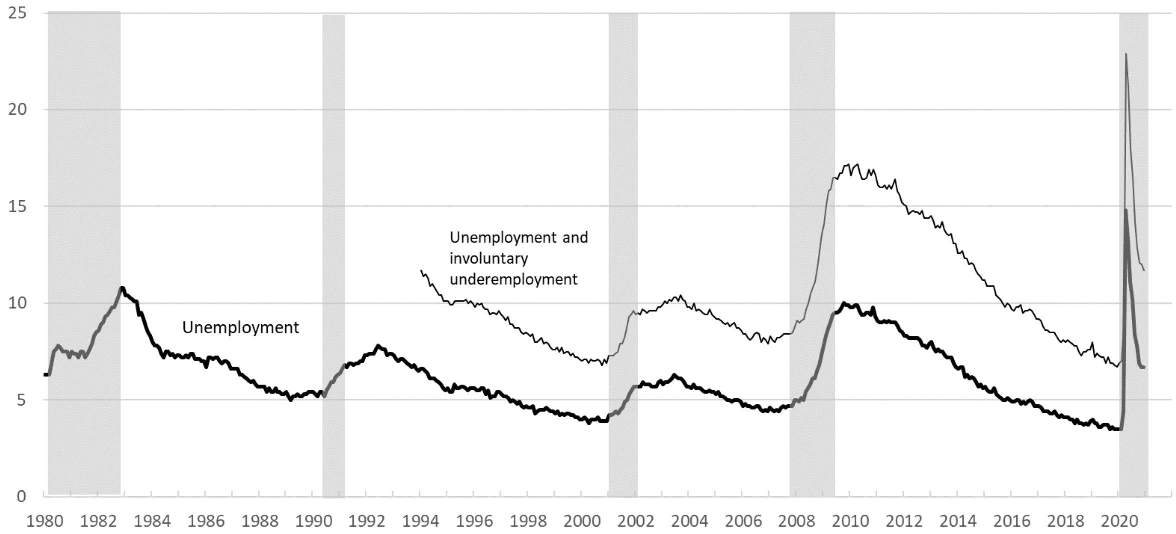
[44] See 'Spac sponsors prosper in '2020 money grab'', *Financial Times,* 14 November 2020. Figures from 'Goldman chief warns Spac boom will run out of steam', *Financial Times,* 21 January 2021.
[45] See Robert Shiller, Online Data at http://www.econ.yale.edu/~shiller/data.htm.
[46] Martin Wolf, 'There is no stock market bubble', *Financial Times,* 16 December 2020.

6. The impact on employment

The economic expansion which began in 2009 led to a strong growth of jobs, and the official unemployment rate fell from 10% in 2010 to 3.5% at the end of 2019, as shown Figure 11.[47] In 2010, male unemployment had been 11%, as a result of the decline in manufacturing jobs, while female unemployment was slightly lower at 9% but, as unemployment declined in the course of the expansion, the rate for men and women converged. There were however significant differences between ethnic groups although these did decline in the course of the expansion. By 2019, while the rate for white non-Hispanic workers had fallen to 3.1%, the rate for Latino workers was 4.3% and that for black workers was 6.2%. Furthermore, despite the expansion, many workers were obliged to accept jobs that were less than full time, and the rate for workers who were unemployed or involuntarily underemployed, which had stood at 17% in 2010, was still 7% in 2019.

Figure 11. US unemployment and involuntary underemployment (% labour force)



Source: Bureau of Labor Statistics, Series LNS14000000 & LNS13327709. Shaded areas show NBER designated recession.

While there had been a strong growth in employment, a trend towards the hollowing-out of secure, well-paid working-class jobs continued. A study by the OECD identified a shift away from jobs which paid a middle-class income in the period between the mid-1980s and the mid-2010s. Their figures showed that for workers aged 30 to 44, middle income jobs had declined by 6.3%, with most of the workers moving into lower income jobs, which increased by 5.0%, and a smaller 1.5% moving up into upper-income jobs. The figures for workers aged 45 to 64 were almost identical.[48] A similar trend has been identified in a series of reports by the Pew Research Centre.[49] A different approach, developed by the Cornell Law School, shows that an index of job quality has, despite a slight upturn between 2012 and 2017, registered a long-term decline since its inception in 1990.[50]

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[47] The following more detailed figures are taken from the Bureau of Labor Statistics, www.bls.gov, series LNS14000001 (men), LNS14000002 (women), LNS14000003 (white), LNS14000006 (black), LNS14000009 (latino).

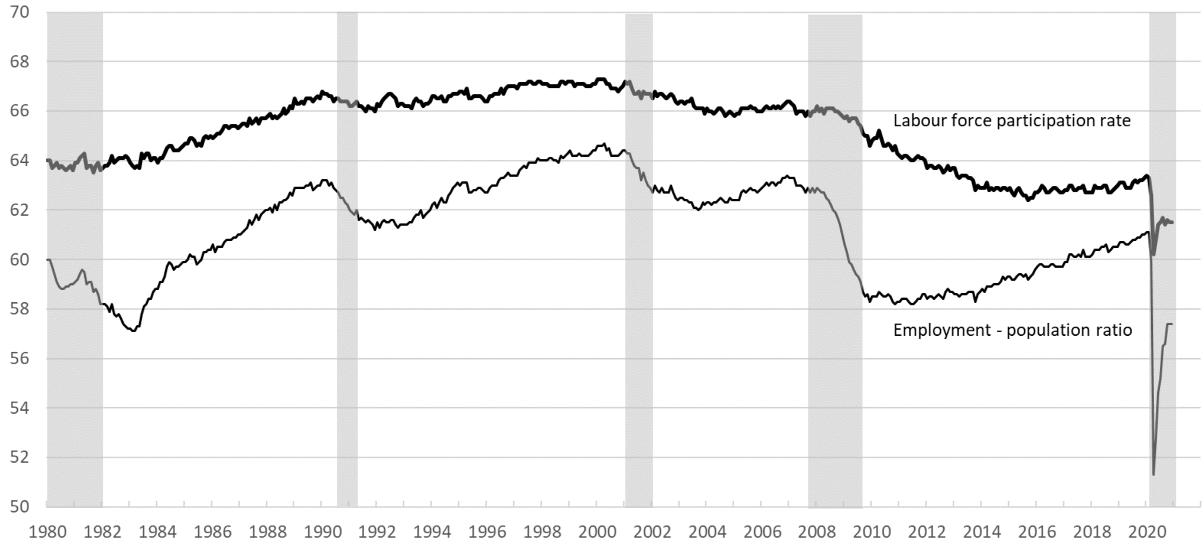
[48] OECD, *Under Pressure: The Squeezed Middle Class*, 2019, Table 2.2, p. 57. Middle income is defined as between 75% and 200% of the national median income.

[49] See for example, 'The American middle class is stable in size, but losing ground financially to upper-income families'. Pew Research Centre, January 2018.

[50] Cornell Law School, *US Private Sector Job Quality Index*, December 2020, Chart 3, p. 5.

Despite the decline in unemployment between 2010 and 2019, the percentage of the population participating in the labour force was lower than it had been during the expansion between 2002 and 2007, and even lower than in the late 1990s, as shown in Figure 12. Similarly, while the percentage of the population that was employed increased in the most recent expansion, even at its peak in 2019, it remained below the peak in 2007 and, even more so, the peak in 2000.

Figure 12. US labour force participation rate and employment – population ration (%)



Source: Bureau of Labor Statistics, Series LNS11300000 & LNS12300000. Shaded areas show NBER designated recessions.

One reason for the decline in the participation rate was that the Clinton government's 1996 welfare reform bill introduced strict limits on how long workers were eligible for unemployment benefits, including a five-year lifetime limit. Once the limit had been reached, long-term unemployed workers had little incentive to register, and so were no longer counted. A second factor, which has been highlighted in an important new book by Anne Case and Angus Deaton, is that structural shifts in the US economy in recent decades have led to the loss of many well-paid working-class jobs in industry.[51] As many workers were forced into unemployment, or into low paid jobs, this engendered a widespread sense of hopelessness in many white working-class communities and resulted in an epidemic of prescription opioid drug use which were aggressively marketed by drug companies. Among white workers aged between 45 and 55, the percentage unable to work rose from 4% in 1993 to 13% in 2017. According to Case and Deaton:

> People are leaving the labour force because their jobs have gone, after which most search for and, in time, find other work … For less educated Americans, participation is falling at the same time that wages are falling.[52]

[51] Anne Case and Angus Deaton, *Deaths of Despair and the future of Capitalism,* 2020.

[52] *Deaths of Despair*, p. 162. In October 2020, Pardue Pharma was found guilty and fined $83 billion for their role in manufacturing and promoting the prescription painkiller OxyContin, which is linked to the death of 400,000 in the last two decades. In February 2021, McKinsey agreed to pay $573 million to settle its role in 'turbocharging' opioid sales through marketing advise. ('McKinsey Settles for $573 Million Over Role in Opioid Crisis', *New York Times,* 4 February 2021)

The impact of the Covid-19 epidemic led to an unprecedented surge in unemployment.[53] As shown in Figure 11, the unemployment rate increased to 14.8% in April, and remained especially high in May (13.3%) and June (11.1%).[54] The impact on women was even greater than for men, with women's unemployment rising to 16.1% in April, 2.5 points higher than for men. In addition, the differences between ethnic groups widened. While the rate for white workers rose to 14.1% in April, that for black workers was 16.7% and that for Latino workers hit 18.9%. As can also be seen in Figure 11, the rate for unemployed and involuntarily underemployed was even higher, rising to a peak of 22.9% in April.

Unemployment began to decline in the second half of the year although by December the rate was still 6.7%, almost twice as high as at the start of the year. The rates for men and women had drawn equal, although differences between ethnic groups remained marked. Whereas the rate for white workers was 6%, that for Latino workers was still 8.8% and that for black workers 10.3%. The rate for the unemployed and involuntarily underemployed had also fallen by December, and stood at 11.9%.

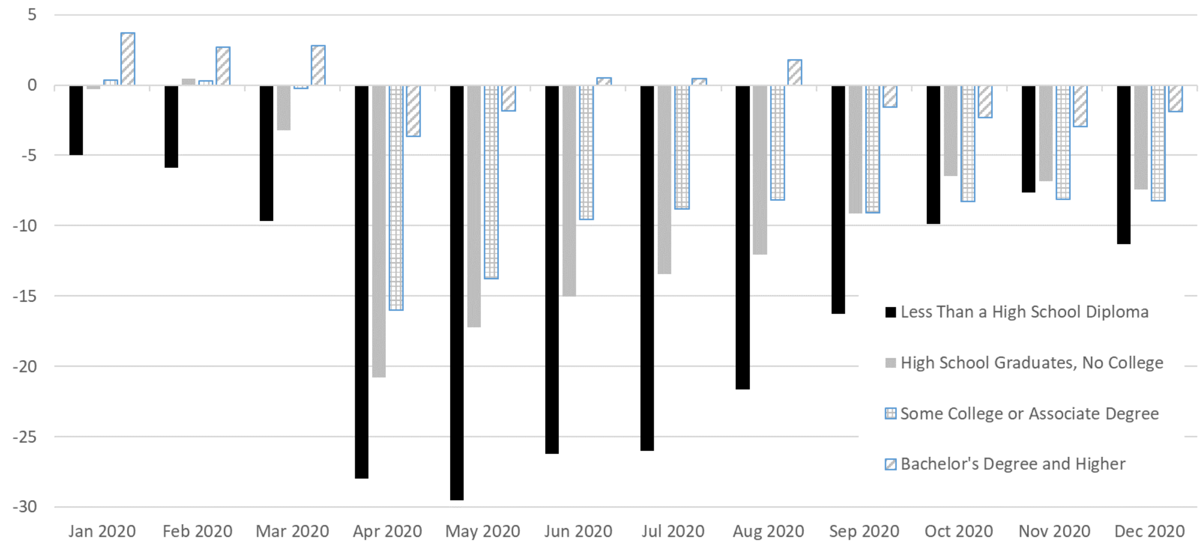
The sharp rise in unemployment as a result of Covid-19 also had a very strong class dimension. This is reflected in changes in the official figures for the numbers employed with different levels of education, as shown Figure 13. Workers without a high school diploma were the first to register a decline in employment and they suffered by far the highest rate of job loss: their employment in May 2020 was down by 30% compared with the previous year and, even though the situation improved in the course of the year, employment was still 11% down on the previous year in December. By contrast, at the other extreme, employees with a bachelor's degree or higher registered a far smaller decline in employment in April and May, when job losses were most pronounced, and employment in this group then actually rose slightly between June and August, and although it fell in the last four months of the year, the decline was very small compared with the other three groups.[55]

[53] Between February and April 2020, employment in the US fell by 22 million. For a review of the literature on who was affected by job losses, see Bureau of Labor Statistics, *Employment recovery in the wake of the COVID-19 pandemic*, December 2020.

[54] The sources for the figures in this paragraph are as in Footnote 47.

[55] A study based on income data found that at the peak unemployment in mid-April, employment for workers with incomes in the bottom quartile had fallen by 37% since January, while that for workers in the top quartile had fallen by only 14%. The study also noted that high wage workers experienced a short 'V-shaped' recession, whereas lower-wage workers experienced a much deeper and more prolonged recession. The authors also found that the strongest rise in unemployment among the low paid was in postal areas with high average incomes, something they attribute to a sharp reduction in expenditure on services involving personal contact by the better off. See Raj Chetty, John N. Friedman, Nathaniel Hendren and Michael Stepner, 'How did Covid-19 and stabilization policies affect employment and income', NBER Working Paper 27431, November 2020, p. 25.

Figure 13. US changes in employment from one year before by educational level (%)

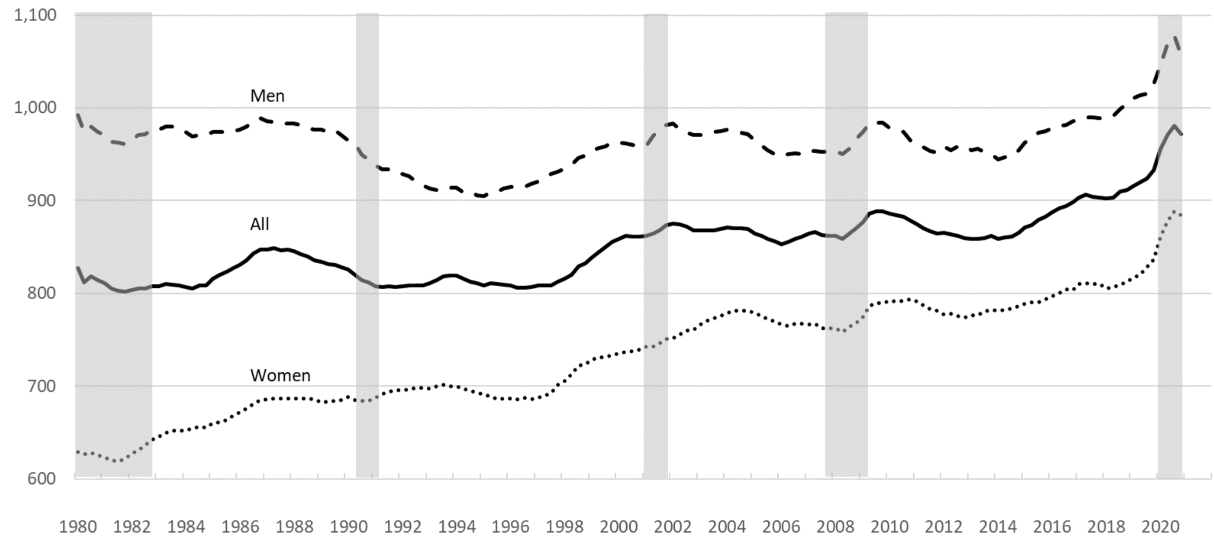


Source: Bureau of Labor Statistics series LNS12027659, LNS12027660, LNS12027689 and LNS12027662.

7. Disparities in income and wealth

The development of weekly median incomes in the US, shown in Figure 14, brings out how much the situation in the US has diverged from that in other advanced capitalist countries since the 1980s. Throughout the whole period from 1980 until 2020, there were only two periods in which income grew very much for all workers, in the late 1990s at the time of the so-called information technology boom, and, more recently, in the period from 2014 to 2019. (The apparent rise in 2020 is due to the much higher proportion of lower paid workers losing their jobs due to the pandemic, as shown above in Figure 13.) Strikingly, the median income for men fell in several periods and, despite the steady increase from 2014, it was not until 2018 that it finally rose above the level at the start of the 1980s. By 2019 it was a mere 3.7% above the value 40 years earlier.

Figure 14. US median weekly income, 2020 US$

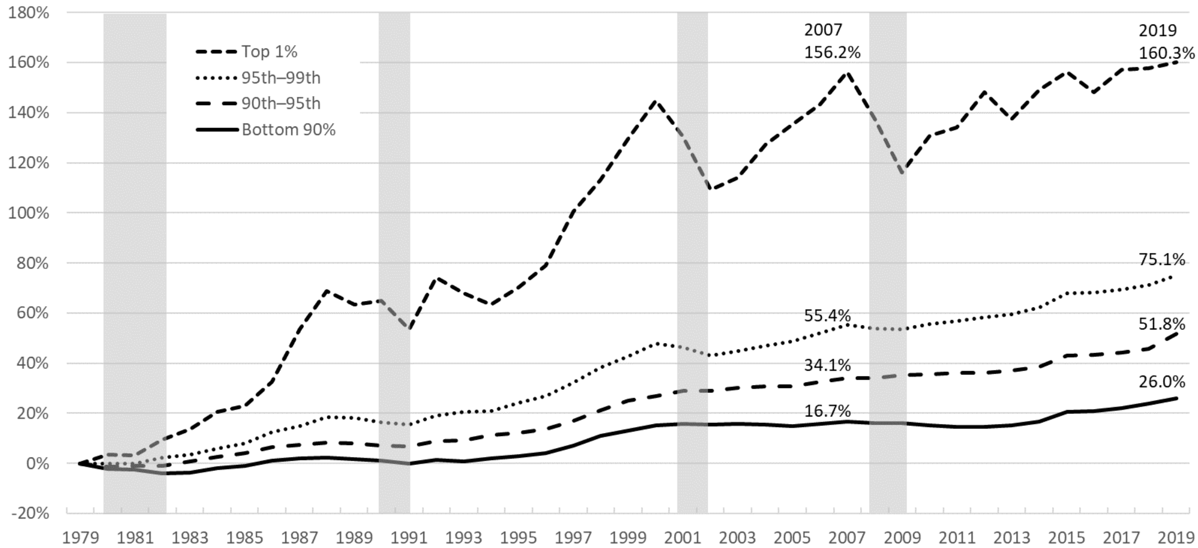


Source: Bureau of Labor Statistics, Series LES1252881600, LES1252881900 and LES1252882800. 2020 prices rebased from average 1982-84. Shaded areas show NBER designated recessions.

As in other countries, there is a wide gap between the incomes of men and women, although this declined as more women have entered the labour market and assumed better paid jobs. Consequently, the median income for women did rise through most of the period shown and by 2019 it was a full 31.6% higher than in 1980. It has been this increase in women's income that has driven the figure for all workers, which by 2019 was 12.8% higher than in 1980. It is perhaps worth noting that many of the workers who supported Trump in 2016 had at some point lost their jobs and been forced to move to lower-paid employment. They felt that Trump's populist positions spoke to them, and the recent rise in incomes – which actually began *before* Trump took office – probably contributed to the strong support he received from working-class voters in 2020.[56]

In contrast to the modest rise in median wages between 1980 and 2019, those with higher earnings enjoyed a much stronger rise, as shown in Figure 15. Real incomes for the bottom 90% of employees, similarly to the figures for median incomes, increased in the late 1990s and then again from around 2014, and by 2019 were 26% higher than in 1980. Higher paid employees did much better. The increase between 1980 and 2019 for employees with incomes between 90% and 95% up the salary scale was 51.8%, while for those between 95% and 99% on the salary scale it was 75%. The income of the top 1% which, as already noted, became increasingly dependent on earnings from shareholdings, rose especially sharply, but also registered significant declines following the fall in stock prices in 2000 and in 2008-2009. Nevertheless, between 1980 and 2019, the income of the top 1% increased by 160%. Even more dramatically, that of the top 0.1% (not shown in the figure) increased by 345.2%.

Figure 15. US cumulative increase in real annual wages by wage group, 1979-2019



Source: Economic Policy Institute, *Working economics blog*, 1 December 2020. Shaded areas show NBER designated recessions. The figure for the top 0.1% in 2019 is 345.2%.

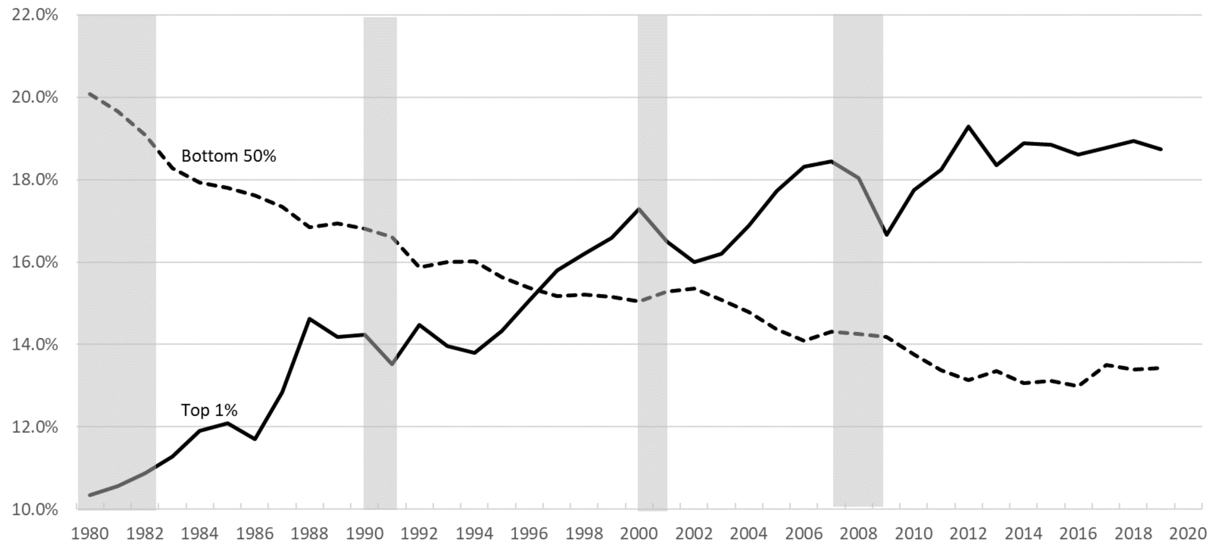
The contrast between the slow growth of median incomes and that of the top 1% has led to a striking shift in the shares of pre-tax national income which each group receives. As shown in Figure 16, the share of national income received by the bottom 50% of employees fell steadily, from 20% in 1980 to around 13% in 2014, from when the share remained relatively stable. As Piketty and his colleagues summarise:

[56] See 'Economy matters most to voters after four years of tumult under Trump', *Financial Times*, 5 November 2020 (replace reference with that to journal article on voting behaviour).

> The bottom half of the adult population has thus been shut off from economic growth for over 40 years, and the modest increase in their disposable income has been absorbed by increased health spending.[57]

By contrast, the share of the top 1% has moved in the opposite direction: although it has been more susceptible to the impact of recessions, it increased from 10% in 1980 to almost 19% in 2014, since when it has remained broadly unchanged. There has, however, been a significant shift in the composition of top incomes: in the 1980s and 90s, the rise was dominated by labour income; since the late 1990s, by contrast, the increase in the top 1%'s share of income has been accounted for by a surge in capital income, in particular the profits from corporate equities.[58]

Figure 16. US pre-tax national income: share of bottom 50% and top 1%



Source: Thomas Piketty, Emmanuel Saez & Gabriel Zucman, 'Distributional National Accounts: Methods and Estimates for the United States', *Quarterly Journal of Economics,* May 2018, online data base http://gabriel-zucman.eu/usdina, Tables II B1, accessed 8 February 2021.

The impact of the Covid-19 pandemic and the measures taken by the government in response had a major impact on the development of incomes in 2020. In late March the government initiated a series of measures as part of its CARES programme which began to have an effect on incomes in April, and continued to have a major impact until July. First, there were the one off payments, equal to $1,400 for adults and $500 for children for all but the highest earning families. These were mainly paid out in April and May and amounted to $266 billion, as shown in Figure 17.

Second, in addition to the normal 26 weeks' unemployment benefit which workers in the US are entitled to, the CARES programme granted them an additional 13 weeks' benefit. In fact, the system was completely overwhelmed with applications. Many workers did not claim, while others faced very long delays in receiving benefits.[59] From May to July, when these payments were at their peak they amounted to around $110 billion a month.

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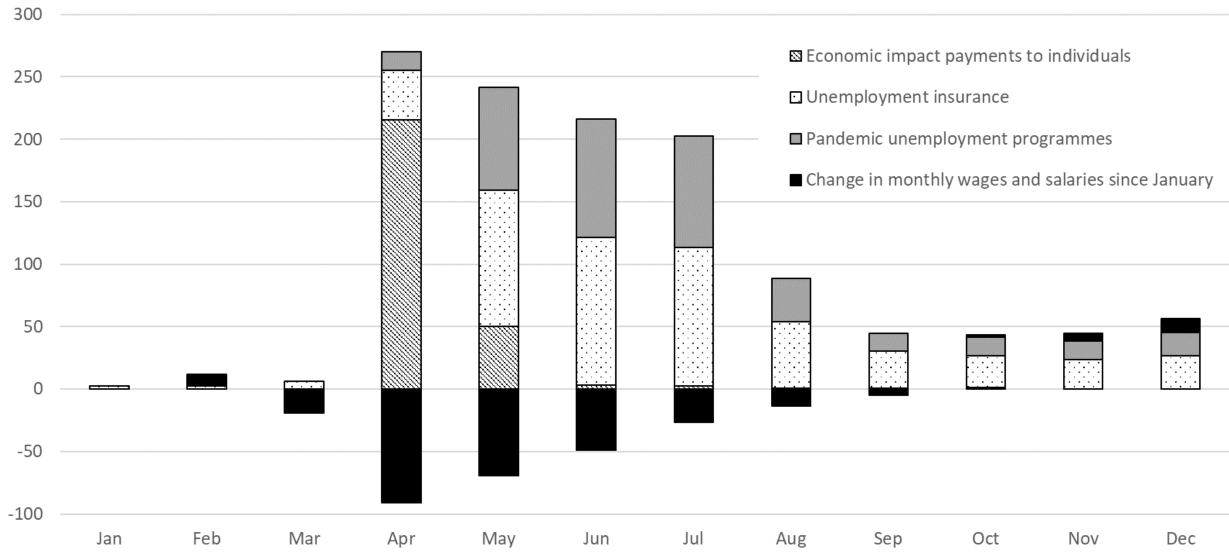
[57] Tomas Piketty, Emmanuel Saez & Gabriel Zucman, 'Distributional National Accounts: Methods and Estimates for the United States', *Quarterly Journal of Economics,* May 2018, p. 583.

[58] See Tomas Piketty, Emmanuel Saez & Gabriel Zucman, 'Distributional National Accounts: Methods and Estimates for the United States', *Quarterly Journal of Economics,* May 2018, Figure VIII, p. 596.

[59] According to one study, if all the workers who were recorded as unemployed in April by the BLS had claimed unemployment benefit the total paid out would have been $90 billion, twice the amount that was actually paid

Third, the Pandemic Unemployment Compensation Programme, the largest of the new pandemic payments introduced under the CARES Act, provided unemployed workers with $600 a week for up to four months and was designed to ensure that average incomes would be replaced. According to some estimates, because it was predominantly lower paid workers earning below the average income who lost their jobs, they actually received more than they had been earning previously.[60] This programme provided around $70 billion a month at its peak between May and July. Two smaller programmes provided payments to groups of workers who, because they were not eligible for normal unemployment benefit, were excluded from the PUC programme.

Figure 17. US pandemic related monthly benefits and changes in monthly wage payments, 2020 (US$ billions)



Source: Bureau of Economic Analysis, Effects of Selected Pandemic Response Programmes on Personal Income, July 2020 and December 2020. Pandemic unemployment programmes include Pandemic Emergency Unemployment Compensation, Pandemic Unemployment Assistance and Pandemic Unemployment Compensation Payments. The last, which provided weekly payments of $600, amounted to over $70 billion a month for four months after the Act's approval.

The combined impact of the different unemployment benefit schemes had a predominantly larger impact on low paid workers. Predictably, households with lower incomes and greater declines in income spent the largest part of the benefits.[61] Nevertheless, there was also a sharp fall in spending by better paid households, most of whom were not made unemployed but, on health grounds, had curtailed many forms of expenditure.[62] As a result, there was a marked rise in the amounts held in

out. See Ryan Nunn, Jana Parsons, and Jay Shambaugh, 'Incomes have crashed. How much has unemployment insurance helped?', Brookings Institute, May 2020.

[60] For a detailed analysis see Peter Ganong, Pascal Noel, and Joseph Vavra, 'US Unemployment Insurance Replacement Rates During the Pandemic', Becker Friedman Institute, August 2020.' They estimate that average replacement rates were 134% of previous incomes, and that some 74% of claimants were better off than at work.

[61] See Scott R. Baker, R.A. Farrokhnia, Steffen Meyer, Michaela Pagel and Constantine Yannelis, 'Income, Liquidity, and the Consumption Response to the 2020 Economic Stimulus Payments', NBER Working Paper 27097, September 2020.

[62] According Raj Chetty, John N. Friedman, Nathaniel Hendren and Michael Stepner, 'How did Covid-19 and stabilization policies affect employment and income', NBER Working Paper 27431, November 2020, p. 4: 'The initial impacts of COVID-19 on economic activity were largely driven by a reduction in spending by higher-income individuals due to health concerns, which in turn affected businesses that cater to the rich and ultimately reduced the incomes and expenditure levels of low-wage employees of those businesses.'

bank accounts and also, unusually, outstanding credit card debt declined as people paid off part of their debt.[63]

By September, unemployment had declined considerably from its peak in April, but the bulk of the CARES Act payments had come to an end, and for those that were still unemployed there was a marked rise in hardship. According to surveys conducted by the Census Bureau, by September, 26 million people – one in eight adults – were sometimes or often without enough to eat and by December the figure had risen to 30 million.[64] Striking news reports showed images of long queues snaking around parking lots as people queued in their cars to obtain food handouts.[65] Finally, at the end of December, a new $900 billion package of support was approved by Congress, and this included a one-off payment of $600 to individuals, and restarted the federal unemployment payments, but at a lower level of $300 a week for a period of 11 weeks.[66]

Table 1. Net wealth of US billionaires (US$ billions)

	Net worth 18 Mar 2020	Net worth 18 Jan 2021	Wealth growth	% Wealth growth	Source
Jeff Bezos	$113.0	$181.5	$68.5	60.6%	Amazon
Elon Musk	$24.6	$179.2	$154.6	628.5%	Tesla, SpaceX
Bill Gates	$98.0	$120.2	$22.2	22.7%	Microsoft
Mark Zuckerberg	$54.7	$92.1	$37.4	68.3%	Facebook
Warren Buffett	$67.5	$88.1	$20.6	30.6%	Berkshire Hathaway
Larry Ellison	$59.0	$86.9	$27.9	47.3%	Oracle
Larry Page	$50.9	$76.4	$25.5	50.1%	Google
Sergey Brin	$49.1	$74.3	$25.2	51.2%	Google
Steve Ballmer	$52.7	$72.5	$19.8	37.5%	Microsoft
Alice Walton	$54.4	$67.6	$13.2	24.3%	Walmart
Jim Walton	$54.6	$67.4	$12.8	23.4%	Walmart
Rob Walton	$54.1	$67.1	$13.0	24.0%	Walmart
Michael Bloomberg	$48.0	$54.9	$6.9	14.4%	Bloomberg LP
MacKenzie Scott	$36.0	$54.8	$18.8	52.1%	Amazon
Phil Knight	$29.5	$52.7	$23.2	78.6%	Nike
SUBTOTAL	**$846.1**	**$1,335.6**	**$489.5**	**57.8%**	
ALL OTHERS	**$2,101.4**	**$2,749.5**	**$648.1**	**30.8%**	
TOTAL	**$2,947.5**	**$4,085.0**	**$1,137.5**	**38.6%**	

Source: Institute for Policy Studies, https://inequality.org/great-divide/updates-billionaire-pandemic/ accessed 2 February 2021.

While the pandemic has resulted in dangerous working conditions or unemployment for many of the lowest paid workers, at the other extreme, the rise in the stock market since the onset of the Covid-

[63] Personal saving increased from around $100 billion in January and February 2020, to over $500 billion in April, and then declined to around $200 billion a month from August. (Bureau of Economic Analysis, Effects of Selected Pandemic Response Programmes on Personal Income, July 2020 and December 2020). Credit card debt fell from $927 billion in the final quarter of 2019 to $807 billion at the end of the third quarter of 2020 (Federal Reserve Bank of New York, Household debt and credit report, November 2020). In January 2021, when a large number of small investors used the Reddit platform to buy shares in the betting shop chain GameStop, it was reported that many of the new small investors were drawing on funds accumulated through pandemic benefits.
[64] US Census Bureau, Household Pulse Survey, week 21 and week 24, Table 4.
[65] See, for example, 'A growing number of Americans are going hungry', *Washington Post,* 25 November 2020.
[66] 'Trump Signs Pandemic Relief Bill After Unemployment Aid Lapses', *New York Times,* 28 December 2020.

19 epidemic has generated an extraordinary increase in the wealth of US billionaires. According to data gathered from Forbes by Americans for Tax Justice and the Institute for Policy Studies, the wealth of the 660 billionaires in the US increased from $2.9 trillion in March 2020 to $4.1 trillion in January 2021.[67] Top beneficiaries were Jeff Bezos whose wealth was up $68.5 billion to $181.5 billion on the back of booming sales by Amazon; Elon Musk, who thanks to Tesla, was up a staggering $154.6 billion to $179.2 billion; and Bill Gates, whose large shareholding in Microsoft was up $22.2 billion to $120.2 billion.[68]

8. A 'feckless puppet of the centrist Democratic establishment'?[69]

The economic expansion between 2009 and 2019 was unusually long but also comparatively weak. The Trump government's tax cuts in 2017 imparted a short-term impetus to growth although this had expired by 2019. While profitability was exceptionally high, investment remained subdued. Corporations embarked on a major borrowing spree but this was primarily deployed to finance the very high level of pay-outs to shareholders. Employment did grow steadily but it was predominantly in less-skilled, lower-paid jobs, and the proportion of the population employed remained below that in the late 1990s. Real incomes have risen since 2014 but, while the median figure for women has risen steadily, that for men only just rose above the value in 1980. By 2019 there were signs that the expansion was coming to an end.

The onset of the Covid-19 pandemic in March 2020 resulted in a huge economic downturn in April and, despite a strong recovery in the second half of the year, output for the whole year fell by 3.4%. Unemployment shot up to 14.7% in April and was still 6.7% at the end of the year. The job losses were, however, concentrated in lower-paid workers and the impact on employment for professionals was much less. A massive programme of financial support by the state provided a temporary cushion for many of the unemployed but the huge injection of funds primarily benefited the very richest sectors. The big investment banks registered unexpectedly high profits and the stock market climbed to a record – and probably unsustainable – high. In this way the response to the pandemic continued the process of shifting income and wealth to the very richest sectors of society that has been a central hallmark of the neoliberal era.

The Trump government's disastrously incoherent response to the pandemic secured Joe Biden's victory in the presidential election in November. Biden had first been elected to the Senate in 1972 at the age of 29 as a middle of the road Democrat. In the 1980s he then shifted towards more neoliberal economic positions, supporting proposals for a balanced budget rule, and the repeal of the Glass Steagall Act which regulated banks.[70] He also garnered a reputation for being tough on crime and supported the introduction of mandatory minimum jail sentences. At the same time, he sought to maintain good relations with the labour unions – although he was also careful to keep in favour with the big corporations seated in Delaware, the state he represented. Biden garnered support among black voters for his willingness to serve as Vice-President to Barrack Obama and, subsequently, chose Kamala Harris, a women of black and Asian descent, as his vice-presidential running mate. Following

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[67] For details, see Institute for Policy Studies, 'Billionaire Wealth, U.S. Job Losses and Pandemic Profiteers', https://inequality.org/great-divide/updates-billionaire-pandemic/

[68] Bezos has been described by the US TV host Stephen Colbert as an 'obscenely rich plutocrat who hoards wealth as those employees not yet replaced by robots have to pee in bottles for lack of bathroom breaks'. ('The Amazon Machine', *Financial Times,* 6 February 2021.

[69] A speaker's description of Biden at a demonstration in Portland, Oregon on the day of inauguration. 'They're Breaking Glass and Criticizing Biden. From the Left.', *New York Times,* 22 January 2021.

[70] For details see Branko Marcetic, *Yesterday's Man: The Case Against Joe Biden*, 2020.

his victory in the presidential primary elections, Biden sought to harness the young supporters of more radical presidential contenders, particularly Elizabeth Warren and Bernie Sanders, and his programme for the election was far more progressive than usual for the Democrats.

Following his election, Biden picked a team of experienced main-stream Democrats for most key government positions. He won plaudits for the ethnic and gender diversity of his cabinet appointments, although Warren and Sanders, who had been considered in line for senior posts, were not included.[71] In the event, Biden appointed the Keynesian labour-market economist Janet Yellen as Treasury Secretary, and subsequently named three economists with progressive backgrounds to the Council of Economic Advisors, Cecilia Rouse (as chair), Jared Bernstein and Heather Boushey. Biden took office running, launching a host of executive actions immediately on taking office. The measures launched in the first few days included establishing a task force to coordinate national responses to Covid-19; re-joining the Paris climate agreement; halting the US withdrawal from the World Health Organisation; increasing food stamps for some 12 million families; and cancelling the controversial Keystone XL oil-pipeline from Canada.

The Biden government's first key legislative initiative was a $1.9 trillion spending package to boost the economy and strengthen the response to the Covid-19 crisis.[72] The package included $400 billion for accelerated vaccination programmes and the opening of schools, and $350 billion for hard-pressed state and local governments. It proposed a one-off payment of $1,400 to individuals together with a weekly supplement to unemployment benefits of $400 through to August, and federally-mandated paid leave for workers together with subsidies for child care.[73] The package also included plans to introduce a Federal minimum wage of $15 an hour. Biden sought bipartisan support for the package and met with 10 Republicans, but they called for a smaller $618 billion package and opposed the proposals for a minimum wage. The package was welcomed by well-known Keynesians such as Paul Krugman and, perhaps more surprisingly, Ken Rogoff who, in a highly controversial study, had famously claimed that public deficits over 90% of GDP were destabilising. Meanwhile, more traditional new Keynesians like Larry Summers, who had been finance minister during Clinton's second term as president, and Olivier Blanchard, both of whom had previously called for fiscal expansion, criticised the proposals for being unnecessarily large and risking higher inflation.[74] In the event, Democrats in both Houses ensured that the bulk of the package was approved, but without the $15 an hour minimum wage and with the weekly supplement to unemployment reduced to $300, albeit for an additional five weeks.

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[71] The main positions were announced before the results of the second round of voting for the Senate in Georgia. Narrow victories in both seats will, with the casting vote of vice-president Harris, enable the Democrats to gain a majority in the Senate. The remarkable Democrat victory in Georgia, long a Republican state, was widely attributed to the work of Stacey Abrams who narrowly lost the election to be state governor in 2018, and who had for over ten years been involved in organising campaigns to educate and register voters, especially among black citizens.

[72] The following details are taken from 'Biden Outlines $1.9 trillion spending package to combat virus and downturn', *New York Times,* 15 January 2021.

[73] Alexandria Ocasio Cortez and others argue that Biden, following Sanders' lead, had originally called for $2,000 for all but, on taking office, had shifted: 'Biden carefully adjusted his language from saying that $2,000 checks "will go out of the door immediately" to declaring now that he will merely "finish the job of getting a total of $2,000" out to the people – a shift used to justify proposing new $1,400 checks instead of $2,000 checks.' See 'Read My Lips: $2,000 Checks for All', *Jacobin,* 21 January 2021.

[74] The characterisation of the four economists' positions is taken from 'Biden's huge "acting big" gamble', *Financial Times,* 17 February 2021.

After the spending package, the Biden administration has plans to launch a major programme of investments in public infrastructure and in the transition to so-called green energy. It has proposed that these should be paid for, at least partly, by higher taxes on the wealthy and on big corporations. Progressive Democrats hope that -- like Roosevelt, another former fiscal conservative, nearly a century ago – Biden will break the mould of US politics. The current balance of forces in Congress is highly precarious although the spending package has gained wide popular support in the country. It remains to be seen whether Biden and the Democrats are able to successfully build on this.

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Editors:
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