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# The twilight of neoliberalism in the USA?

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*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 payouts 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 to 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.*

**Keywords:** *US economy, profitability, investment, finance, employment, wages*

**JEL codes:** *E25, E32, E44, E58, E65, F44, G01*

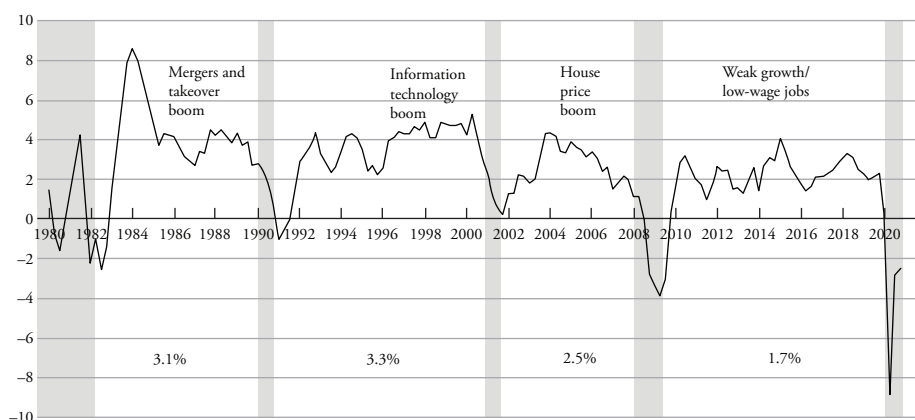
## 1 INTRODUCTION

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 (Fed) 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 (see for example Bartels 2016).

Since the 1980–1982 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 twentieth 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

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*Notes:* Shaded areas show NBER-designated recessions. Figures show peak-to-peak average growth. *Source:* NIPA, table 1.1.11.

*Figure 1* US real GDP, 1980–2020 (percentage change over four quarters)

burst in 2000, it led to a sharp downturn. A major financial crisis was only avoided through massive intervention by the Fed.

The following expansion, from 2002 until 2007, was somewhat weaker and driven by a housing boom which enabled homeowners 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.<sup>1</sup> There were already signs that this expansion was drawing to a close when Trump became president in 2017, but 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 that 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 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 immediately introduced a major programme of tax cuts and increased expenditure which eventually amounted to \$830 billion. The fiscal

1. For details of the 2002–2007 expansion and subsequent crisis, and of the early stages of the expansion which began in 2009, see Evans (2009; 2018).

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 (NIPA, table 3.1). 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.<sup>2</sup> At the end of 2017, Trump's government introduced a major programme of tax cuts, benefiting above all business and top incomes.<sup>3</sup> As tax revenues declined, the fiscal deficit registered a small but steady rise, from 4.8 per cent of GDP in early 2017 to 6.3 per cent in late 2019.

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 per cent. 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 per cent 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.

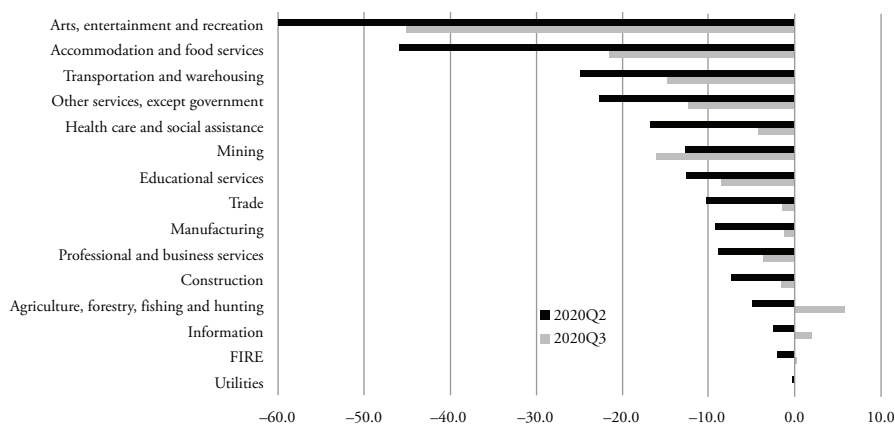
The government responded to the impact of the pandemic with a massive increase in spending. At the end of March, Congress approved a \$2 trillion stimulus programme, the Coronavirus, Relief and Economic Security (CARES) Act. This included a \$600 per week increase in unemployment benefits and one-off payments of \$1200 for everyone earning less than \$75 000 a year with an additional \$500 for each child aged under 17.<sup>4</sup> It also included \$350 billion in support for businesses employing fewer than 500 workers, \$454 billion for emergency lending to businesses, states and cities, and \$46 billion for airlines, air-cargo companies and Boeing.<sup>5</sup> 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

2. Military expenditure, 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 (NIPA, table 3.9.5, lines 17 and 25).

3. The tax rate for corporations was reduced from 35 per cent to 21 per cent, 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 multinationals' 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 per cent between 2016 and 2018, with larger companies benefiting most (see Wagner et al. 2020). Tax rates for personal income were also reduced, with the rate for top incomes reduced from 39.6 per cent to 37 per cent (for details, see Tax Policy Centre 2020).

4. Reduced payments were made to individuals earning above \$75 000 a year up to a maximum of \$98 000 a year.

5. For details of the CARES Act, see Tax Foundation (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 NYT 2020b). The \$46 billion carried strict conditions, including maintaining 90 per cent 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 Brenner (2020).



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

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

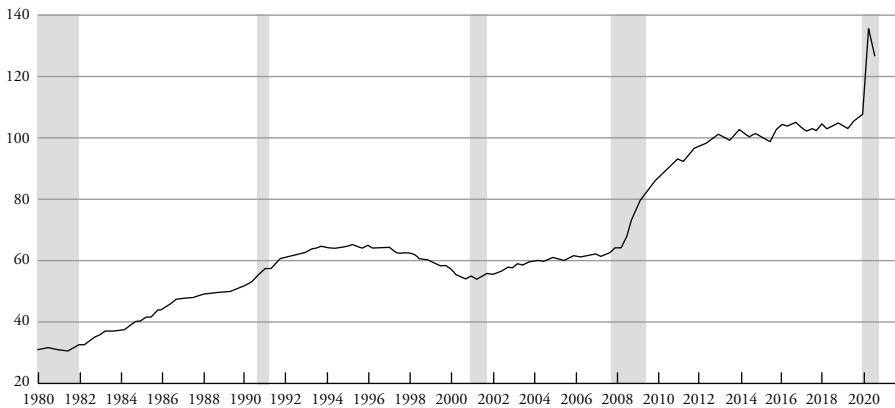
Republican-controlled Senate, which insisted any new programme should prioritise support for business. However, as the pandemic intensified again later in the year, in December 2020 Congress finally agreed a new compromise package of support worth some \$900 billion, which included a payment to individuals of \$600 and extended unemployment benefits through to March 2021.<sup>6</sup>

Government borrowing at the time of the financial crisis had pushed its debt up from 62 per cent of GDP in 2008 to just over 100 per cent 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 per cent of GDP – even higher than its previous peak of 114 per cent 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.

The Fed had lowered the target for its key interest rate to 0–0.25 per cent (in effect 0 per cent) 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 per cent (Federal Reserve, table H 15, effective monthly average rate). 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.<sup>7</sup> Then with the onset of the COVID-19 pandemic, it cut rates by 0.5 per cent

6. The package also included exceptionally generous tax breaks for business, including some that had been rejected by Treasury Secretary Mnuchin in March (see NYT 2020f).

7. 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 2020).



*Note:* Shaded areas show NBER-designated recessions.

*Source:* Board of Governors of Federal Reserve, series LA314104005.

*Figure 3* US government debt, 1980–2020 (percentage of GDP)

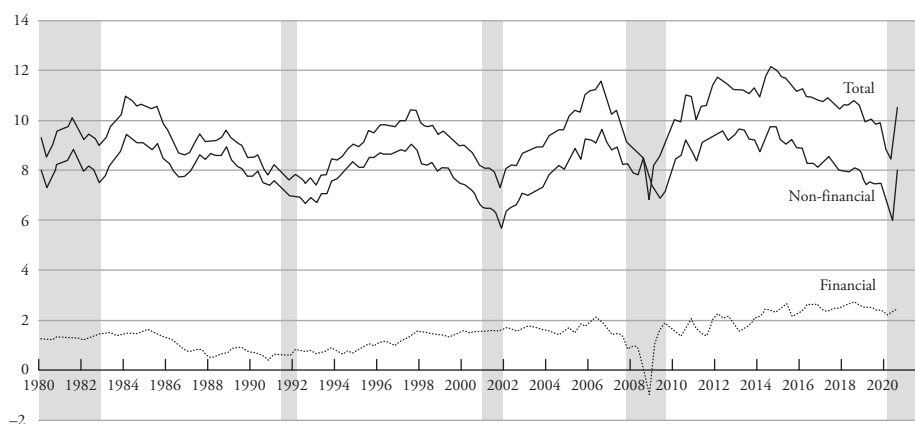
at the beginning of March 2020 and a full 1 per cent in mid March, bringing the effective rate back to 0 per cent.

The Fed also initiated an unprecedented monetary expansion. It had responded to the 2007–2009 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.<sup>8</sup> 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 per cent 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.

### 3 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

8. The figures in this paragraph are from Board of Governors of the Federal Reserve, H.4.1 Factors Affecting Reserve Balances, table 5.



*Notes:* Shaded areas show NBER-designated recessions. GDP for 2019Q4 has been used as the denominator throughout 2020.

*Source:* NIPA, table 1.14, net operating surplus.

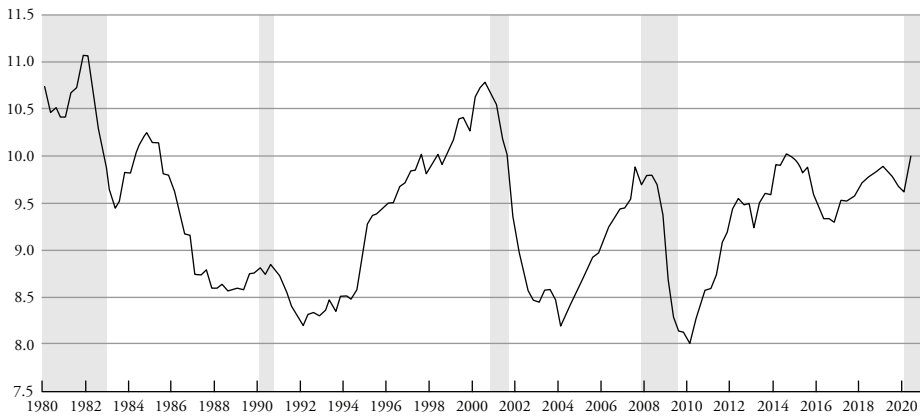
*Figure 4 US corporate business profitability, 1980–2020 (percentage of GDP)*

higher and higher peak in each cycle, as shown in Figure 4.<sup>9</sup> 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 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.

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 5. 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.<sup>10</sup> 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 per cent of the benefits of the 2017 tax cuts were actually spent on share

9. 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 both for fixed capital measured at historic and current cost (estimates based on values in Fixed Assets Accounts, tables 4.1 and 4.3).

10. According to Wagner et al. (2020), the total tax paid fell by 16 per cent between 2016 and 2018. They also found that the reduction tended to be greater for larger companies. NIPA, table 1.14, shows tax payments by non-financial corporations fell by 24 per cent between 2016 and 2018, and by 18 per cent between 2016 and 2019.



*Note:* Shaded areas show NBER-designated recessions.

*Source:* Federal Reserve, *Financial Accounts*, table F 103, series FA105019005.

*Figure 5* US non-financial corporations' gross fixed investment, 1980–2020 (percentage of GDP)

repurchases and only 20 per cent on fixed investment or research and development (Kopp et al. 2019: 29). 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.

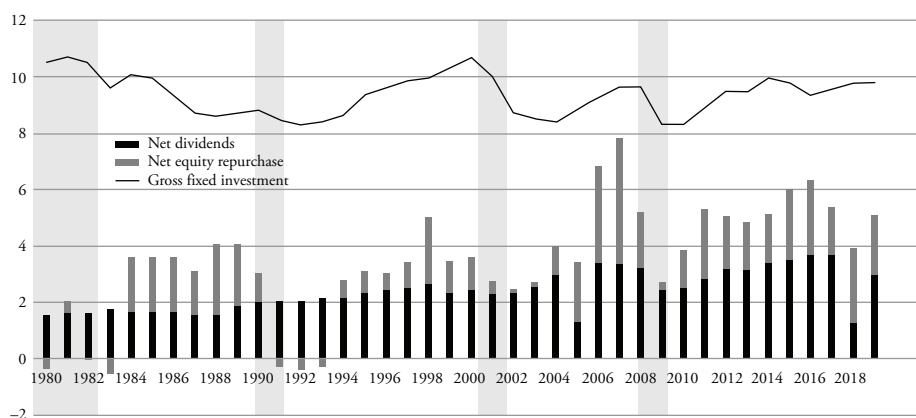
While investment did strengthen in the most recent expansion, particularly between 2011 and 2015, the growth of labour productivity was unusually weak. From 1980 to 2007 the annual growth in labour productivity per hour worked averaged 2.0 per cent (The Conference Board 2020: row 1654). But, after an 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 per cent 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.

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 payouts, which are shown in Figure 6. 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.<sup>11</sup> In addition to the high level of dividend payment, companies also continued to distribute very large sums to shareholders through share buybacks, which are taxed at a lower rate than dividends.<sup>12</sup> As in previous years, the key beneficiaries were the corporate executives

11. 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.

12. Until the Security and Exchange Commission changed its rules in 1982, share buy-backs were illegal.





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

Figure 6 US non-financial corporations' dividends and share repurchases, 1980–2019 (percentage of GDP)

who receive a substantial part of their remuneration through share options. Figure 6 demonstrates how the value of corporate payouts to shareholders has risen from around 20 per cent of gross fixed investment in the early 1980s to around 50 per cent in the most recent expansion.

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 US 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 announced that there would be limits on the amount that each company could borrow, but these were quickly abandoned.<sup>13</sup> 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 (see NYT 2020c).<sup>14</sup> 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.

The Paycheck Protection Program was initially set up 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

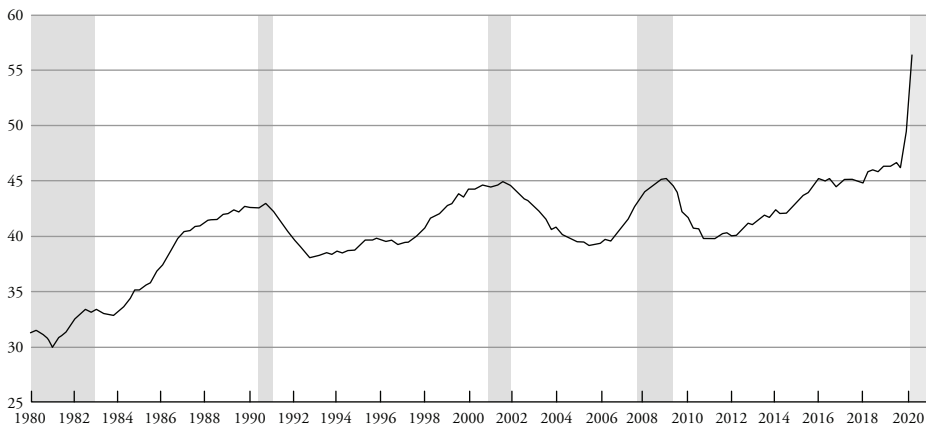
13. The original limit was that loans should not push debt above six times earnings before interest, tax, depreciation and amortisation (see FT 2020b). The programme was also extended in July to include some non-profit organisations such as hospitals and universities.

14. 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 buy-backs; Boeing has spent nearly \$53 billion.

programme to gain access to the funds (see FT 2020a). 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 2020, the Treasury announced that it was trying to recoup hundreds of millions of dollars from big firms who had received funds through the programme (see NYT 2020d).<sup>15</sup> The programme was extended with a further \$310 billion in April 2020 and a new round of \$284 billion was launched in January 2021.

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 7. 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 trillion – a record 46.2 per cent 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 trillion, to reach an unprecedented \$11 trillion, equal to 56.3 per cent 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 payouts to shareholders. The scale of these payments was so large that corporate indebtedness began to edge upwards and had already surpassed previous peaks, even before the impact of the COVID-19-induced downturn in 2020.



Note: Shaded areas show NBER-designated recessions.

Source: Federal Reserve, *Financial Accounts*, table D3, series LA104104005.

Figure 7 US non-financial corporations' debt (percentage of GDP)

15. More than 100 companies had disclosed loans of more than \$2 million; 22 companies said they had returned the money.

#### 4 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 per cent in the early 1990s to reach 25 per cent in 2018 and 2019, as can be seen 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 (US Department of the Treasury 2017). 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.<sup>16</sup> 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. These 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 Fed chiefs (Ben Bernanke and Janet Yellen) to warn that the move could seriously threaten US financial stability (see NYT 2019a). 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 (see NYT 2019b).

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.<sup>17</sup> Faced with the threat of a breakdown in the market, the Fed intervened on a massive scale, reactivating the programme of buying government bonds which it had introduced in 2008 at the time of the financial 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

16. For a brief summary of the changes, see NYT (2020e).

17. According to a subsequent report by the Financial Stability Board (2020), 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.

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.<sup>18</sup> The Fed also launched two programmes which would enable it – for the first time – to lend directly to US corporations.<sup>19</sup> For wealth owners, who had been facing an abyss, the injection of such massive amounts into financial markets was like manna 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 (see NYT 2020a). 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 COVID-19 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 the 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 (Federal Reserve Bank of New York 2019–2020). 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. JP Morgan, 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 (see NYT 2021b). The six biggest banks also announced plans to spend \$10 billion on resumed share buy-backs, close to the maximum allowed by the Fed (see FT 2021b).

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.<sup>20</sup> Following huge losses at the time of the 2008 financial crisis, the Fed stepped in to rescue many

18. 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 Fed, see Cheng et al. (2021).

19. 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.

20. 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

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.<sup>21</sup>

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 2020, 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.

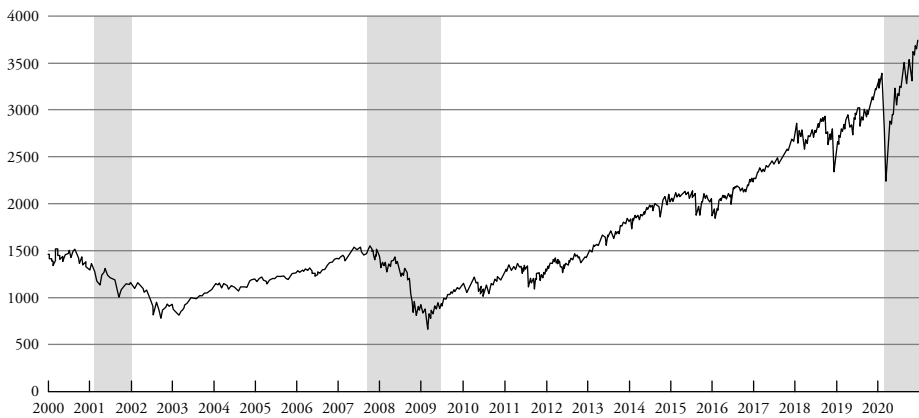
An important development since the 2008 financial crisis has been the increasing significance of asset-management funds.<sup>22</sup> The so-called ‘big three’ – BlackRock, Vanguard and State Street – managed assets of some \$13 trillion in 2019 and, together, they hold about one-fifth of the shares 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!

A much more recent development, which highlights the huge amount of capital that has 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.

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.

21. The following two paragraphs draw on Federal Reserve Bank of Kansas City (2020). For more details of the impact of the financial market turmoil on shadow banks, see Office of Financial Research (2020: 73–77). Non-bank financial intermediary assets fell from \$70 to \$65.8 billion in the first quarter of 2020.

22. This paragraph is based on Vasudevan (2020).



*Note:* Shaded areas show NBER-designated recessions.

*Source:* S&P Dow Jones Indices, monthly average.

*Figure 8 US S&P 500 stock index, 2000–2020*

In 2020, over 250 SPACs were 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 (see FT 2020d; the figures are from FT 2021c).

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 8, 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 breaking 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 of 2019.

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 (see Shiller 2021). Some commentators have argued that the high stock-market values reflect the underlying prospects for the US economy (for example, Wolf 2020). 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'.

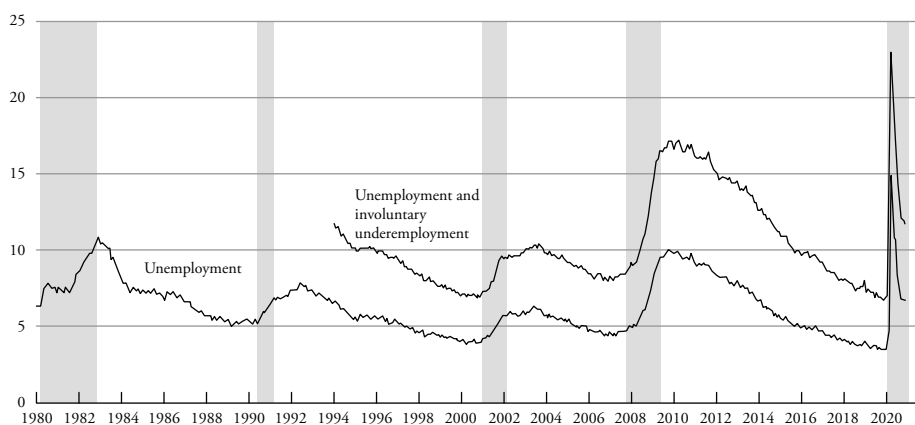
## 5 THE IMPACT ON EMPLOYMENT

The economic expansion which began in 2009 led to a strong growth of jobs, and the official unemployment rate fell from 10 per cent in 2010 to 3.5 per cent at the end of

2019, as shown Figure 9.<sup>23</sup> In 2010, male unemployment had been 11 per cent, as a result of the decline in manufacturing jobs, while female unemployment was slightly lower at 9 per cent but, as unemployment declined in the course of the expansion, the rates 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 per cent, the rate for Latino workers was 4.3 per cent and that for black workers was 6.2 per cent. 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 per cent in 2010, was still 7 per cent in 2019.

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 per cent, with most of the workers moving into lower-income jobs, which increased by 5.0 per cent, and a smaller 1.5 per cent moving up into upper-income jobs. The figures for workers aged 45 to 64 were almost identical (OECD 2019: 57, table 2.2).<sup>24</sup> A similar trend has been identified in a series of reports by the Pew Research Centre (see for example Pew Research Centre 2018). 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 (Cornell Law School 2020: 5, chart 3).

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



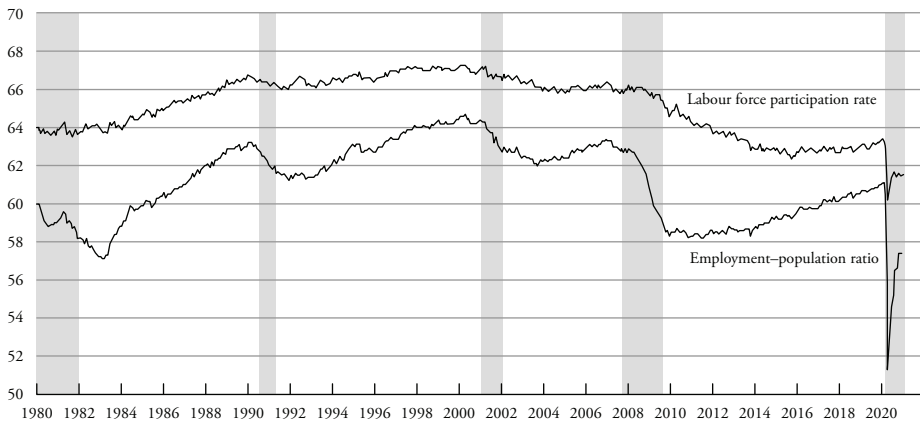
Note: Shaded areas show NBER-designated recessions.

Source: Bureau of Labor Statistics, series LNS14000000 and LNS13327709.

Figure 9 US unemployment and involuntary underemployment (percentage of labour force)

23. The more detailed figures which follow are taken from the Bureau of Labor Statistics, series LNS14000001 (men), LNS14000002 (women), LNS14000003 (white), LNS14000006 (black) and LNS14000009 (latino).

24. Middle income is defined as between 75 per cent and 200 per cent of the national median income.



*Note:* Shaded areas show NBER-designated recessions.

*Source:* Bureau of Labor Statistics, series LNS11300000 and LNS12300000.

*Figure 10 US labour force participation rate and employment – population ratio (percentage)*

expansion between 2002 and 2007, and even lower than in the late 1990s, as shown in Figure 10. 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.

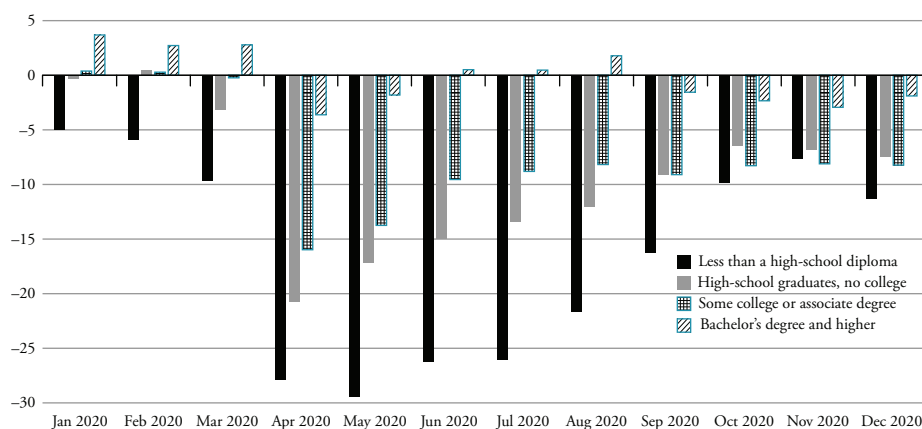
One reason for the decline in the participation rate was that the Clinton government's 1996 welfare reform bill introduced strict limits on how long workers were eligible for unemployment benefits, including a five-year lifetime limit. Once the limit had been reached, long-term unemployed workers had 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 (2020), 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. 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 per cent in 1993 to 13 per cent in 2017. According to Case/Deaton (*ibid.*: 162), '[p]eople 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'.<sup>25</sup>

The impact of the COVID-19 epidemic led to an unprecedented surge in unemployment.<sup>26</sup> As shown in Figure 9, the unemployment rate increased to 14.8 per cent

25. In October 2020, Purdue Pharma was found guilty and fined \$83 billion for its role in manufacturing and promoting the prescription painkiller OxyContin, which is linked to the deaths of 400 000 people since the early 2000s. In February 2021, McKinsey agreed to pay \$573 million to settle its role in 'turbocharging' opioid sales through marketing advice (NYT 2021d).

26. 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 (2020).





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

Figure 11 US changes in employment from one year before by educational level (percentage)

in April 2020, and remained especially high in May (13.3 per cent) and June (11.1 per cent).<sup>27</sup> The impact on women was even greater than on men, with women's unemployment rising to 16.1 per cent 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 per cent in April, that for black workers was 16.7 per cent and that for Latino workers hit 18.9 per cent. 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 per cent in April.

Unemployment began to decline in the second half of 2020, although by December the rate was still 6.7 per cent, 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 per cent, that for Latino workers was still 8.8 per cent and that for black workers 10.3 per cent. The rate for the unemployed and involuntarily underemployed had also fallen by December, and stood at 11.9 per cent.

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 11. 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 per cent compared with the previous year and, even though the situation improved during the course of the year, employment was still 11 per cent 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.<sup>28</sup>

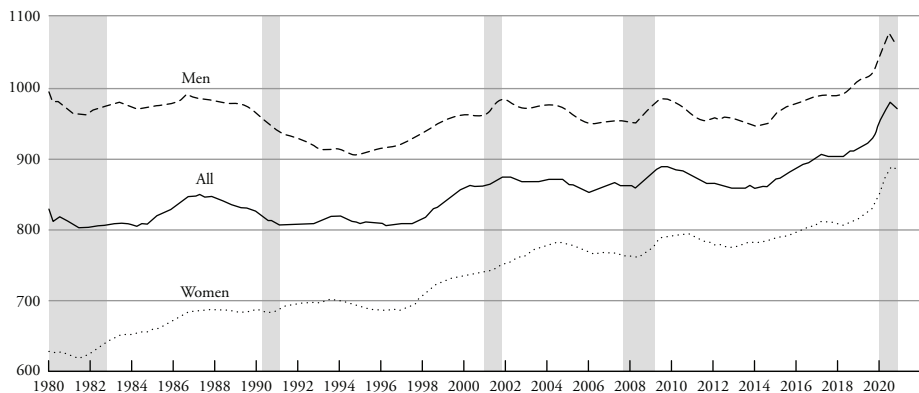
27. The sources for the figures in this paragraph are as in footnote 23.

28. A study based on income data found that at the peak of unemployment in mid April, employment for workers with incomes in the bottom quartile had fallen by 37 per cent since January, while

## 6 DISPARITIES IN INCOME AND WEALTH

The development of weekly median incomes in the US, shown in Figure 12, 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 in Figure 11.) 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 per cent above the value 40 years earlier.

As in other countries, there is a wide gap between the incomes of men and women, although this has 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 per cent 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 per cent 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 position spoke to them, and the recent rise in incomes – which actually began



*Notes:* 2020 prices rebased from average 1982–1984. Shaded areas show NBER-designated recessions.  
*Source:* Bureau of Labor Statistics, series LES1252881600, LES1252881900 and LES1252882800.

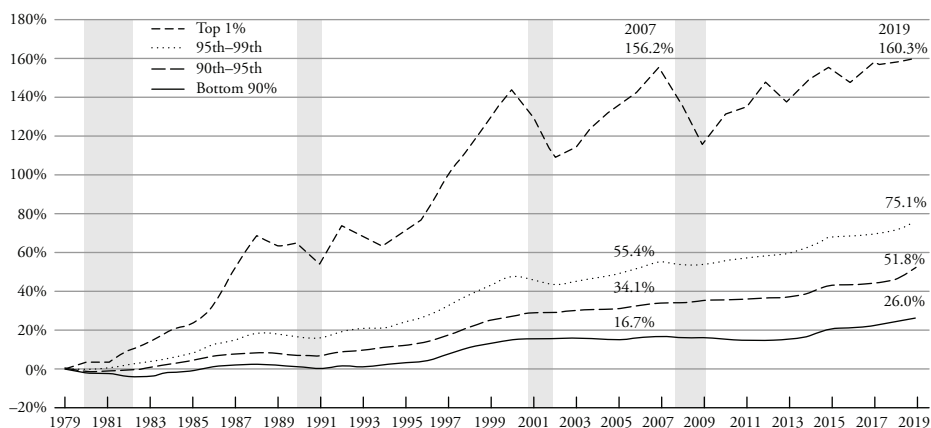
*Figure 12 US median weekly income, 2020 US\$*

that for workers in the top quartile had fallen by only 14 per cent. 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 Chetty et al. 2020: 25).

before Trump took office – probably contributed to the strong support he received from working-class voters in 2020 (see FT 2020c).

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 13. Real incomes for the bottom 90 per cent 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 per cent higher than in 1980. Higher-paid employees did much better. The increase between 1980 and 2019 for employees with incomes between 90 per cent and 95 per cent up the salary scale was 51.8 per cent, while those between 95 per cent and 99 per cent on the salary scale was 75 per cent. The income of the top 1 per cent, 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 per cent increased by 160 per cent. Even more dramatically, that of the top 0.1 per cent (not shown in the figure) increased by 345.2 per cent.

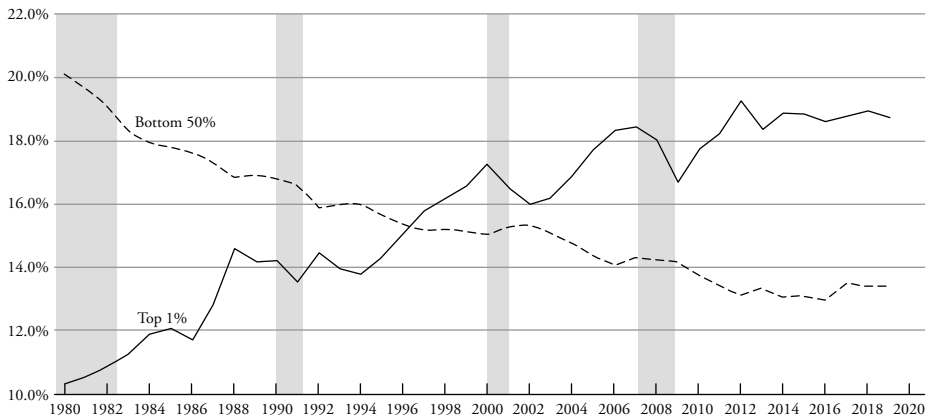
The contrast between the slow growth of median incomes and that of the top 1 per cent has led to a striking shift in the shares of pre-tax national income which each group receives. As shown in Figure 14, the share of national income received by the bottom 50 per cent of employees fell steadily, from 20 per cent in 1980 to around 13 per cent in 2014, from when the share remained relatively stable. As Piketty et al. (2018: 583) summarise, '[t]he 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'. By contrast, the share of the top 1 per cent has moved in the opposite direction: although it has been more susceptible to the impact of recessions, it increased from 10 per cent in 1980 to almost 19 per cent 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 1990s, the rise was dominated by labour income; since the late 1990s, by contrast, the increase



Notes: Shaded areas show NBER-designated recessions. The figure for the top 0.1 per cent in 2019 is 345.2 per cent.

Source: Economic Policy Institute (2020).

Figure 13 US cumulative increase in real annual wages by wage group, 1979–2019



Source: Piketty et al. (2018), online database <http://gabriel-zucman.eu/usdina>, tables II B1 (accessed 8 February 2021).

Figure 14 US pre-tax national income: share of bottom 50 per cent and top 1 per cent

in the top 1 per cent's share of income has been accounted for by a surge in capital income, in particular the profits from corporate equities (ibid.: 596, fig. VIII).

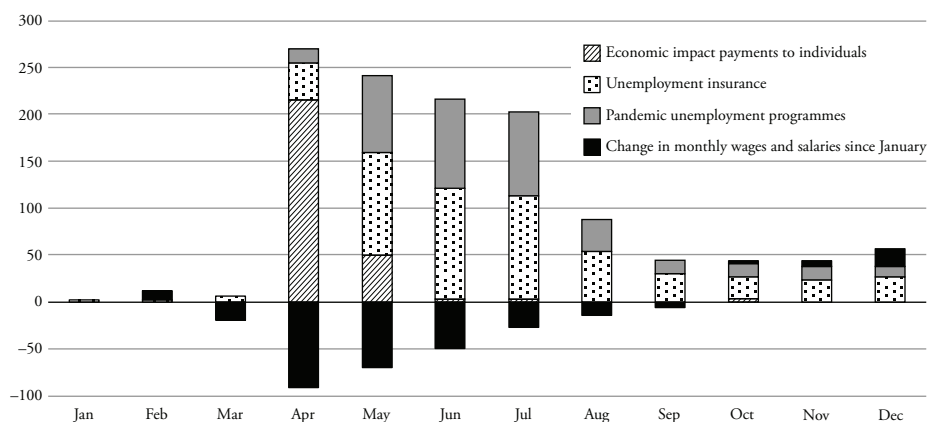
The impact of the COVID-19 pandemic and the measures taken by the government in response had a major impact on the development of incomes in 2020. In late March the government initiated a series of measures as part of its CARES programme that began to have an effect on incomes in April, and continued to have a major impact until July. First, there were the one-off payments, equal to \$1400 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 15.

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.<sup>29</sup> From May to July, when these payments were at their peak, they amounted to around \$110 billion a month.

Third, the Pandemic Unemployment Compensation (PUC) 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.<sup>30</sup> 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.

29. According to one study, if all the workers who were recorded as unemployed in April 2020 by the BLS had claimed unemployment benefit, the total paid out would have been \$90 billion, twice the amount that was actually paid out (see Nunn et al. 2020).

30. For a detailed analysis, see Ganong et al. (2020), who estimate that average replacement rates were 134 per cent of previous incomes, and that some 74 per cent of claimants were better off than at work.



*Notes:* 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.

*Source:* Bureau of Economic Analysis (2020).

*Figure 15 US pandemic-related monthly benefits and changes in monthly wage payments, 2020 (US\$ billions)*

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.<sup>31</sup> 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.<sup>32</sup> As a result, there was a marked rise in the amounts held in bank accounts and also, unusually, outstanding credit-card debt declined as people paid off part of their debt.<sup>33</sup>

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 who 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

31. For a detailed analysis, see Baker et al. (2020).

32. According to Chetty et al. (2020: 4), '[t]he 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'.

33. 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 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 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.

(US Census Bureau 2020). Striking news reports showed images of long queues snaking around parking lots as people queued in their cars to obtain food handouts (see for example WP 2020). 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 (see NYT 2020g).

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-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, as shown in Table 1. 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.<sup>34</sup>

## 7 A 'FECKLESS PUPPET OF THE CENTRIST DEMOCRATIC ESTABLISHMENT'?<sup>35</sup>

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 payouts 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 per cent. Unemployment shot up to 14.7 per cent in April and was still 6.7 per cent 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 2020. Biden had first been

34. 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' (FT 2021d).

35. A speaker's description of Biden at a demonstration in Portland, Oregon, on the day of inauguration (NYT 2021c).

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
<i>Subtotal</i>	<i>\$846.1</i>	<i>\$1335.6</i>	<i>\$489.5</i>	<i>57.8%</i>	
<i>All others</i>	<i>\$2101.4</i>	<i>\$2749.5</i>	<i>\$648.1</i>	<i>30.8%</i>	
<i>Total</i>	<i>\$2947.5</i>	<i>\$4085.0</i>	<i>\$1137.5</i>	<i>38.6%</i>	

Source: Institute for Policy Studies (2021).

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 (for details, see Marcetic 2020). 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 Barack Obama and, subsequently, chose Kamala Harris, a woman of black and Asian descent, as his vice-presidential running mate. Following 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 mainstream 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.<sup>36</sup> 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 upon starting his position. The measures launched in the first few days included: establishing a task force to coordinate national responses to COVID-19; rejoining 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.<sup>37</sup> 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 \$1400 to individuals together with a weekly supplement to unemployment benefits of \$400 through to August plus federally mandated paid leave for workers and a radical new programme to provide most parents with a monthly payment of \$300 per child.<sup>38</sup> 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 ten 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

36. 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 (see FT 2021a).

37. The details given in the next few sentences are taken from NYT (2021a).

38. Alexandria Ocasio Cortez and others argue that Biden, following Sanders's lead, had originally called for \$2000 for all, but upon 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 Sirota et al. 2021). For the importance of the new childcare payments, see NYT (2021e).



controversial study, had famously claimed that public deficits over 90 per cent 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.<sup>39</sup> 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.

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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39. The characterisation of the four economists' positions is taken from FT (2021e).

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