Class, Race and Corporate Power

Volume 9 | Issue 1 Article 1

2021

The Political Economy of the 2020 U.S. Presidential Election

Michael Roberts
bobmckee99@yahoo.com

The Political Economy of the 2020 U.S. Presidential Election

Abstract

This article examines the demographic data behind the 2020 election and forecasts the limitations on the Biden administration for dealing with the economic fallout of COVID. Finally, the article argues that without an economic revolution, the US may be slated to return to the low growth, low investment, and low wage-growth economy of the previous ten years.

Find more of Roberts' work at "The Next Recession."

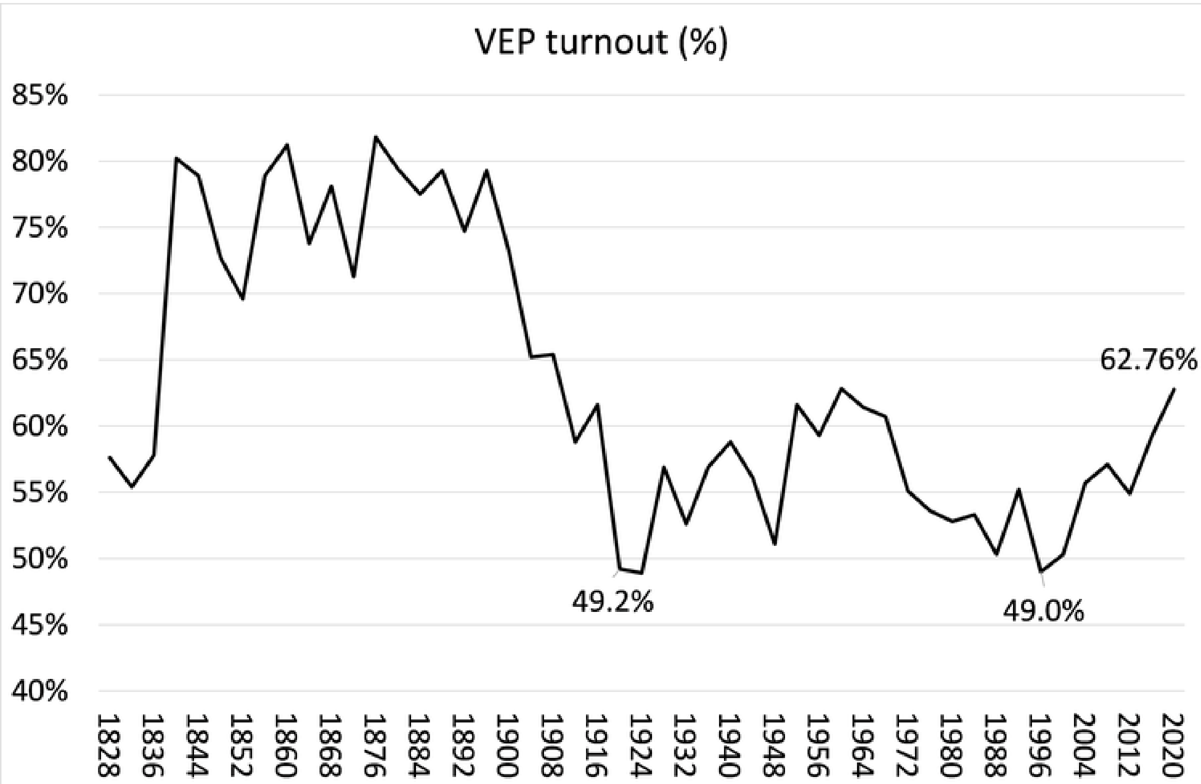
Keywords

2020 Election, Class Politics

In the 2020 election, new President Joe Biden beat incumbent Donald Trump by some margin in the popular vote. However, due to the peculiarities of the American constitutional system established by the 'founding fathers', a winning candidate needs a majority of votes from an 'electoral college'. This method ensures that a majority of the 50 states in the Union supports the winner. The founding fathers aimed to ensure the stability of the Union in this way. Otherwise, those states with large populations could swamp the vote of the smaller states. At least, that is the argument for the college and for that matter the structure of the Senate where the smallest state (Montana?) gets the same number of senators (2) as the largest populated state (California).

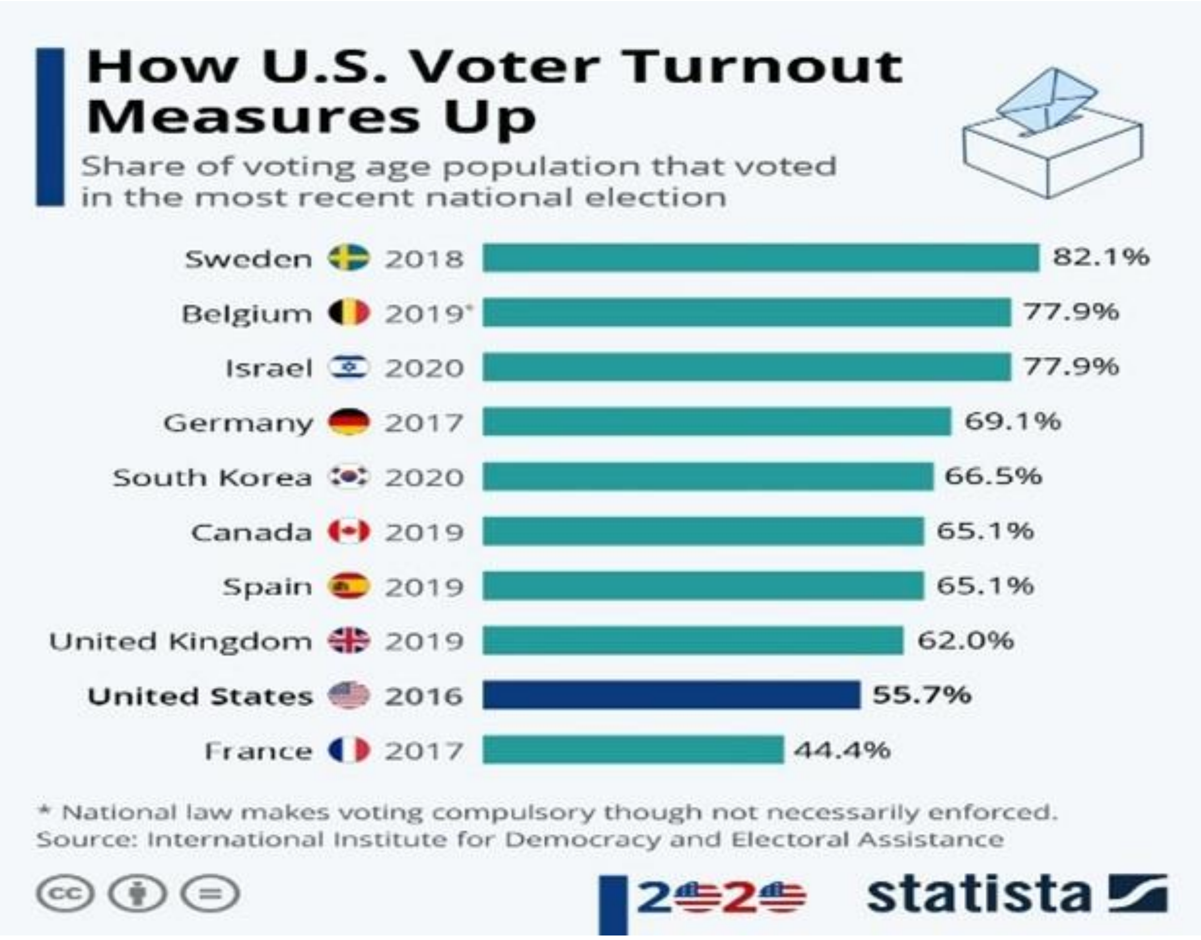
The counter argument is that voters in California are really being disenfranchised and it could mean that narrow voting victories in a number of small sates could that a president can be elected while losing the popular vote. That happened in 2016 when Donald Trump won. Hilary Clinton polled 4m more votes than Trump but lost key states narrowly, allowing Trump to take the electoral college.

It was nearly the same story in 2020. Biden polled 7m more votes than Trump (81m to 74m), in a 67% voter turnout, or 62% of the voting age population, the largest turnout since 1960, when John Kennedy narrowly beat Richard Nixon. But Biden only took the electoral college through relatively narrow wins in states like Arizona, Pennsylvania and surprisingly Georgia. Since losing, Trump has campaigned that the election was rigged, attempting to cajole and pressure election officials into reversing results in various states and provoking and promoting violent attacks on Congress and other state buildings. But in a way (not his way), he is right.



The high voter turnout still meant that 37% of Americans entitled to vote did not do so. That compares with 31.4% who voted for Biden and 29.6% who voted for Trump. So once again, the No Vote party polled the highest national vote in the US election.

Moreover, there were 20m voting age Americans excluded from the poll for various nefarious reasons (they had committed a felony or the state administration had refused their registration). So a sizeable section of America's working classes did not vote and/or were not allowed to vote. Indeed, the 'greatest democracy in the world' has one of the lowest levels of voter participation of the major so-called 'liberal democracies'.

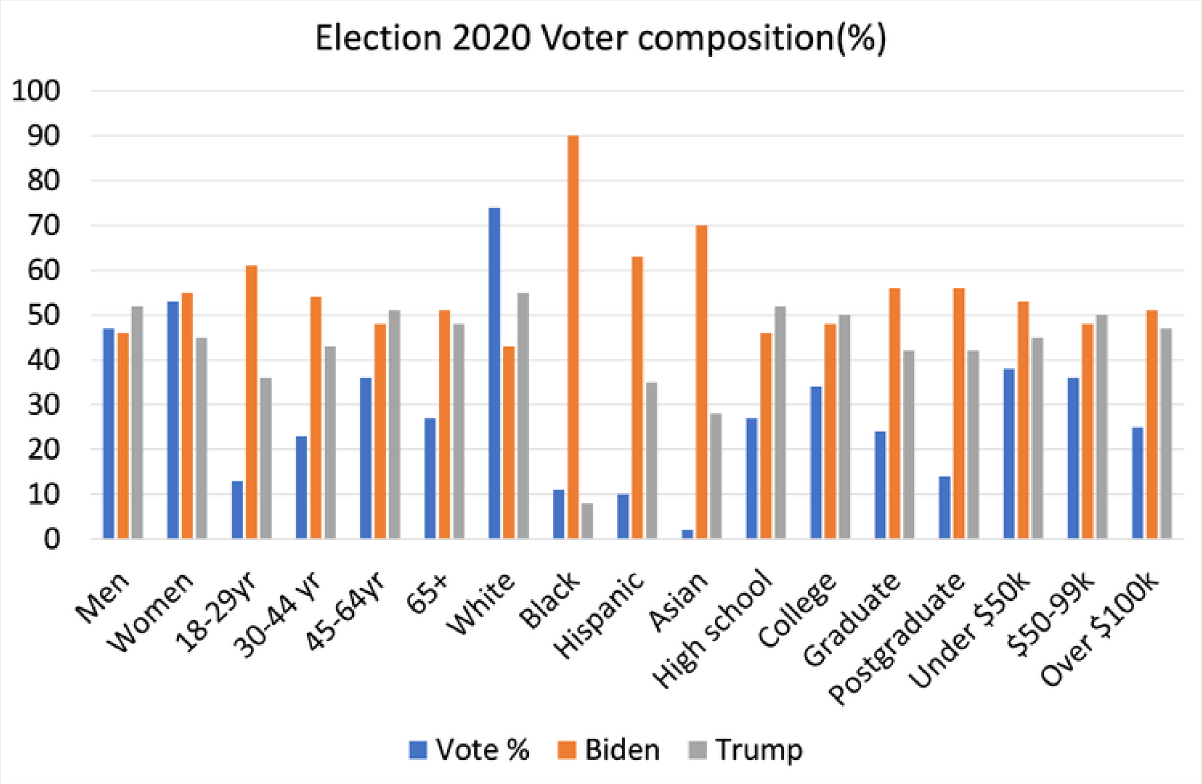


One large slice of the population that does not exercise its right to vote is young Americans. Less than half — just 43.4% — of eligible Americans under 30 voted in the 2016 presidential election. This was much less than the 71.4% of over-60s who voted. It was even lower in this election.

Another reason the election result was close is that in the Republican-run states, there has been significant gerrymandering of the voting boundaries, deliberate blocking of voter registration and in this election a desperate attempt to foil massive postal balloting during the COVID pandemic. US 'democracy' is a joke. According to the Economist, it is at the bottom of the pile as a 'liberal democracy', with only Albania scoring lower!

The reason the turnout was higher this time is partly the intense polarisation in America during the COVID pandemic and the economic collapse; fuelled by Trump's demagogic tirades. But also, the COVID pandemic lockdowns led to a massive increase in postal voting, an easier process for voters than going to the polling centres. There were also significant grassroots campaigns in the big cities to get people registered and voting. The Georgia result is the best example of this, followed up by victories for Democrats in the Senate run-off there, giving the Democrats a nominal majority in the Senate for the first time in decades.

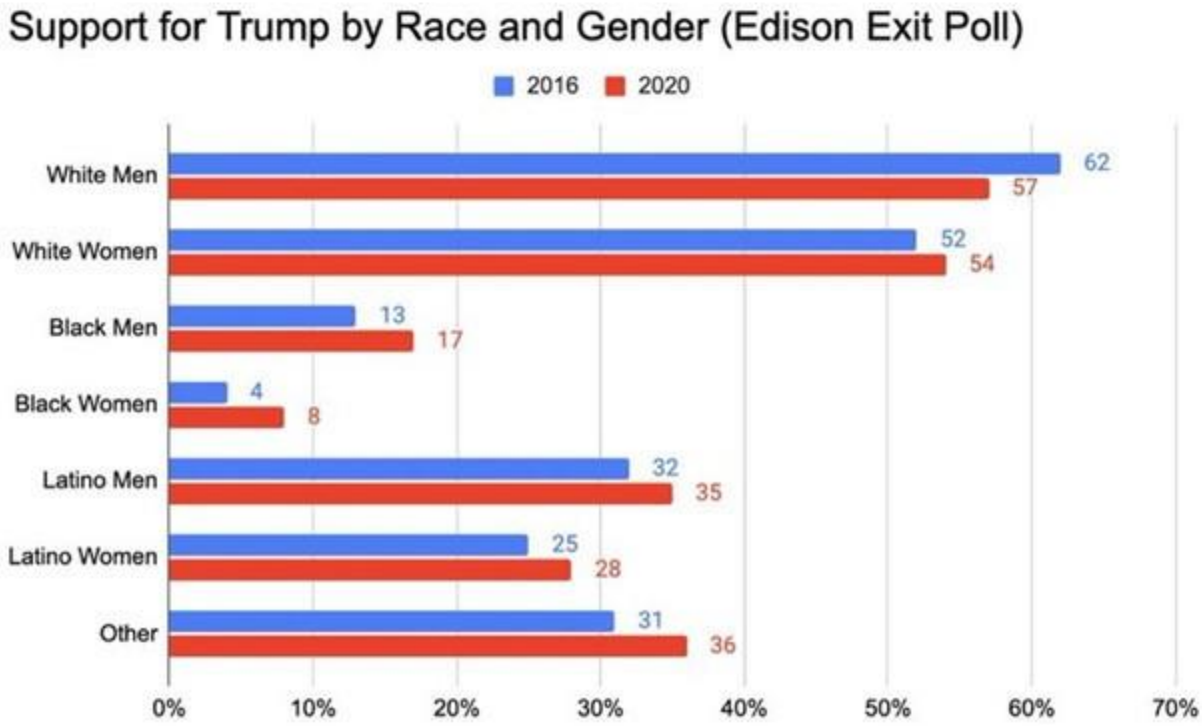
What can we learn anything from the demographics and economic composition of those who did vote? The Votecast survey of voters gives us some clues. According to the survey, male voters (47%) split 46-52 for Trump, but female voters (53%) split 55-45 for Biden. So women voters ensured a Biden victory.



The youth vote, as usual, was low, just 13% of the total vote, but those under 29 years voted 61-36 for Biden. And those aged 30-44 years (23% of the vote) also backed Biden 54-43. Those aged 45-64 (a huge 36% of the vote) went narrowly for Trump 51-48. And those over 65 years (another sizeable chunk of 27%) again narrowly voted for Trump 51-48. So 63% of those who voted were older than 44 years and backed Trump (narrowly); while those under 45 (just 37% of the vote) heavily backed Biden. That was enough to overcome the small majorities for Trump in the older age groups.

What about ethnic groups? Well, the survey found that 74% of the voters were white and they backed Trump 55-43. But all other ethnic groups overwhelmingly backed Biden. Black Americans constituted only 11% of those voting, but they backed Biden 90-8. Hispanic voters were only 10% of the total but they backed Biden 63-35. Asian voters were only 2% of the vote but backed Biden 70-28. This 25% of the voters (and growing in size in each election) so overwhelmingly backed Biden that it was enough to overcome the smaller Trump majority among the white voters.

Much has been made of the supposed increased vote for Trump by black and Hispanic Americans this time compared to 2016. But the evidence for this is dubious and even if true, the shift is tiny. According to the Edison exit poll, there was a fall-off in support by white men for Trump compared to 2016 from 62% to 57% and small rise from white women from 52% to 54%. The supposed rise in support for Trump from black men was 13% to 17% and from black women was from 4% to 8%. But considering that white voters were 75% of the vote and black voters were only 11%, the supposed shift to Trump from black voters is less than half the loss by Trump from white voters. More Hispanic voters backed Trump this time, it is claimed, but still around two-thirds did not.



What about classes and incomes? Well, by level of education, high school leavers (27% of voters) backed Trump 52-46; and those with some qualifications (34% of voters) again backed Trump but narrowly 50-48. College graduates (a sizeable 24% of voters) heavily backed Biden 56-42 and postgraduate voters (some 14%) were even more strongly pro-Biden 58-40. The more educated, the more Biden.

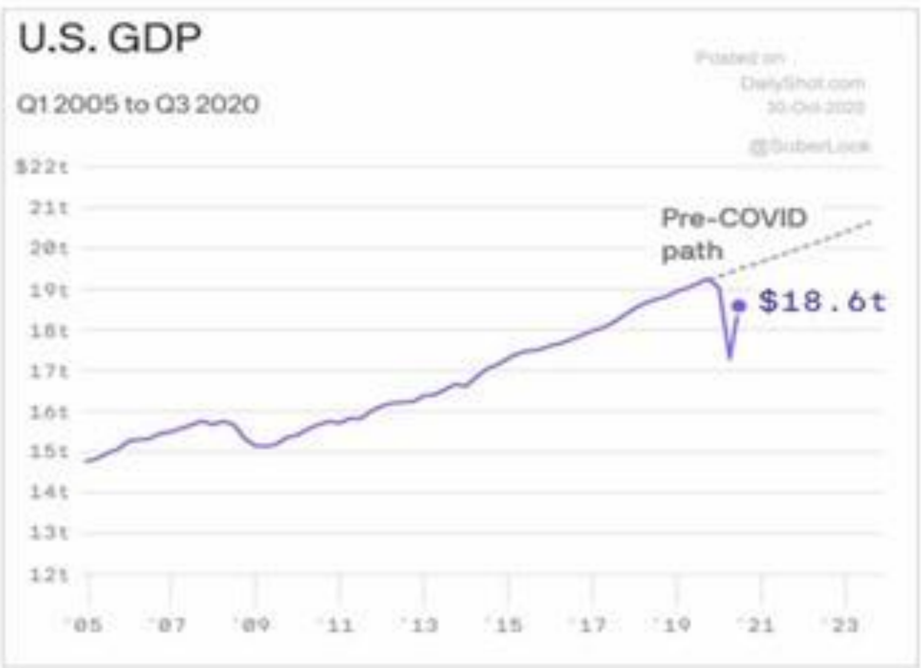
But that did not mean that working class Americans backed Trump more than Biden. Those voters earning $50,000 a year (the median average income) or less backed Biden significantly 53-45, and they were 38% of voters. Those in the middle-income group of $50-99k a year (36% of voters) narrowly backed Trump 50-48, while those earning over $100k a year (25% of voters) actually backed Biden 51-47. The lowest paid Americans, the largest group of voters voted for Biden by a good margin, while small-business people and higher income earners narrowly backed Trump.

I think we can make an estimate of whether the majority of the white working class backed Biden or not. Using the Vote Cast stats (and assuming they are accurate!), the vote from those earning $99,000 a year or less was 72% of the total vote. Of that 72%, Biden got 37%, while Trump got 35%. If we assume that all the black and hispanic Biden voters are in this group, then I calculate that white workers constituted 52% of the total vote. Of that 52%, Biden got 21% of that vote while Trump got 31%. So the white working class backed Trump over Biden about 60-40. However, given that more women voted and more voted for Biden, I calculate that a small majority of white working-class women voted for Biden over Trump. That means white male working class voters went for Trump by over two to one. Still the working class as defined showed a small majority (2.5%) for Biden.

There is clearly a sizeable minority of working-class Americans that backed Trump, mainly in small towns and rural areas. But the majority of working-class Americans rejected Trumpism. The urban areas (65% of votes) heavily backed Biden while the small towns and rural areas heavily backed Trump. [It was here that the polarisation in the vote was greatest.] Religion also played a role. Protestant Christian believers and evangelicals (45% of voters) voted heavily for Trump while Catholics (22%) were split 50-50 and Muslims, Jews and declared atheists (25% of voters) backed Biden hugely.

What were the main issues of the election? Two stand out: the COVID-19 pandemic and the state of the economy. The pandemic was considered the most important by 41% of voters and those that thought so backed Biden heavily. The economy and jobs were regarded as the most important issue by 28% of voters who heavily backed Trump. Here was another clear cause of polarisation in America: lockdowns to save lives; or no lockdowns and save jobs was how many Americans saw it in 2020.

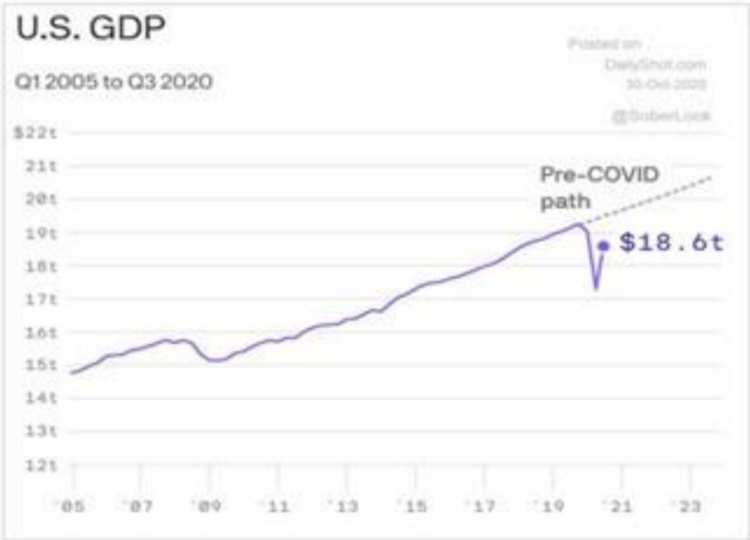
To sum up, Americans turned out for this election in slightly larger numbers, but the turnout was still way down compared to other 'liberal democracies'. They voted even more strongly for the Democratic candidate than in 2016, but the constitutional peculiarities of the election system made the result quite close – although, more or less, in line with pollster forecasts. Biden won because America's ethnic minorities overcame the white majority. Biden won because younger Americans voted for Biden sufficiently to overcome Trump majorities among older voters. Biden won because working class Americans voted for him in sufficient numbers to overcome the votes of the small town business-people and rural areas.



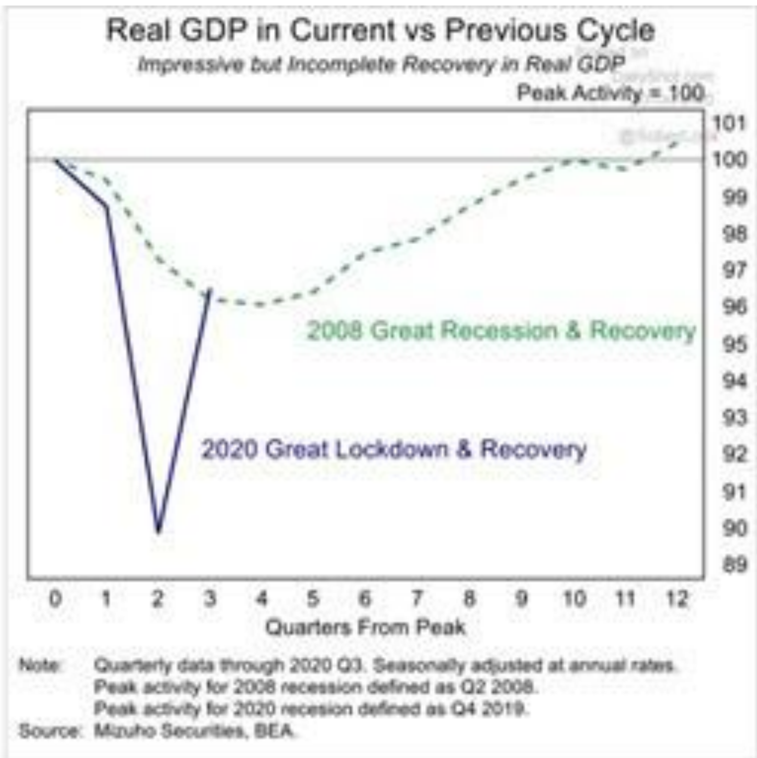
Biden had the backing of the majority of women workers, ethnic minorities, young people and city dwellers. They voted to get rid of Trump: but they may not expect much from Biden and they may well be right.

The US election was a mess; mirroring the mess that US imperialism is now in, with the COVID pandemic running riot across America and the economy on its knees with millions unemployed, wages slashed and public services paralysed.

First, let us remind ourselves of the challenges that Biden faces. The US economy is suffering the worst economic slump since the 1930s. In 2020, US national output fell 3.5%, the largest annual drop since 1946.



Indeed, US real GDP is really back only to levels near the bottom of the last slump in the Great Recession of 2008-9.



Source: Mizuho Securities USA

And out of more than 22 million jobs lost in March and April 2020 during the lockdowns, only around half have been recovered so far.

Employed persons (000s)

While the Federal government has been supplied with funds from Congress, raised by the Federal Reserve through the purchase of government bonds, the states and local counties have been starved of funds and forced to lay off hundreds of thousands of public employees. So the outgoing US government (like many others) failed to save lives and also failed to save livelihoods. And this is particularly the case for the lowest paid, often unable to work from home, forced to work in dangerous conditions or being laid off; and that mainly means, black and other ethnic minorities, women and young people.

In the last year, there has been the biggest injection in history of credit into the monetary system through Federal Reserve Bank purchases of government and corporate debt and loans to businesses. The Fed's balance sheet has nearly doubled in one year, to reach nearly 40% of US GDP and is set to rise further this year. Has it saved businesses from bankruptcy? Well, yes to some extent, but mainly the large travel, auto and fossil fuel industries, while many small businesses are going bust.

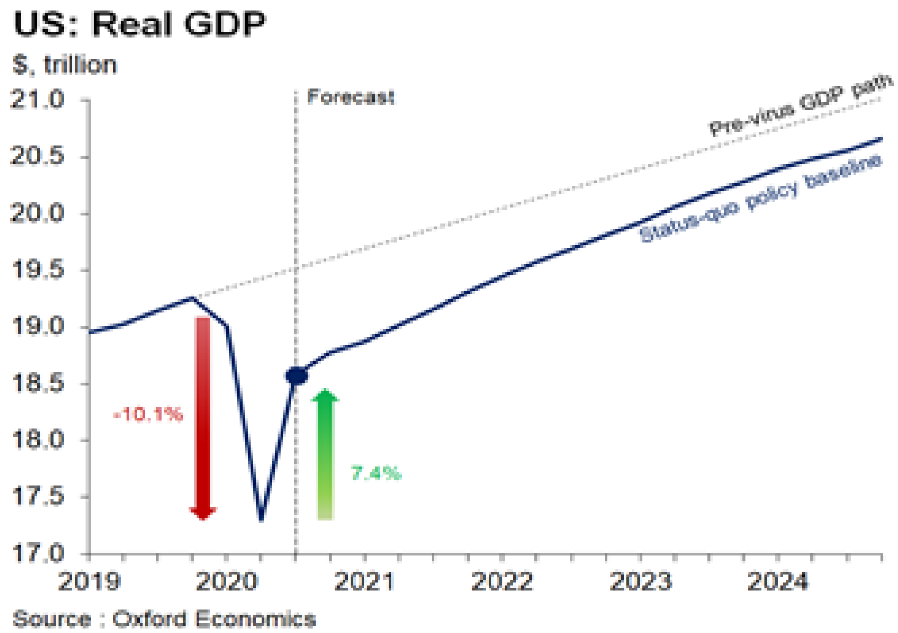
With interest rates more or less at zero and the Fed pumping yet more credit into the coffers of banks and businesses, will this largesse help to get the US economy going at a fast pace in 2021? Well, the evidence is against it. The history of what is called 'quantitative easing' (where it is the quantity of credit money that is injected, not reducing cost of this money in interest, that matters) has proved that it fails to restore the productive sectors of the capitalist economy. As empirical study concluded: *"output and inflation, in contrast with some previous studies, show an insignificant impact providing evidence of the limitations of the central bank's programmes"* and *"the reason for the negligible economic stimulus of QE is that the money injected funded financial asset price growth more than consumption and investments."* balatti17.pdf (free.fr)

Indeed, what has happened to all these credit injections is that they have been used by banks and big businesses to speculate in the stock and bond markets rather than to pay wages, preserve jobs or raise investment. After the initial panic of the pandemic in March, the US stock market has gone on an unparalleled binge. It is now at all-time highs and relative to earnings and productive assets is at extreme levels. Yet with more Fed support to come, financial markets may well go rolling on up for a while longer. So all monetary policy has done is to keep businesses on life support, while boosting the wealth of the very rich. The frenzy in stock markets recently exposed by the so-called GameStop stock battle between large hedge funds and small traders is the ultimate indicator of the casino economy that the US has become.

Meanwhile, the COVID pandemic continues to rage across the country with infection rates at record highs, encouraging people to stay at home to work (if they can); not to meet up, travel or spend on restaurants and leisure activities – even if many state governors continue to say it is fine to do so.

Thank god, the vaccines have arrived and are being rolled out as fast as the big pharma companies can manufacture them and the overstretched health and local authorities can dispense them. By the end of this year, a sufficient number of Americans should have been inoculated to ensure the subsidence of the COVID-19 virus, at least of the variants currently known – the risk of dangerous new mutations remains.

With the vaccines arriving and COVID perhaps brought under control, the US economy should achieve a modest recovery from the depths of the slump last summer and perhaps even get back pre-pandemic levels of output by year-end – in other words a two-year slump. But a return to the pre-pandemic trajectory of economic growth and employment is years away. Indeed, according to Oxford Economics, real GDP growth won't return to its previous trend at all. Far from a V-shaped economic recovery, or even a U-shaped one, it's more like the shape of a reverse square root.



This is the same trajectory of depressed economic growth that emerged after the Great Recession of 2008-9. The US and other major capitalist economies appear to be entering another leg of that depression, ie low growth, low productive investment, low wage employment and, behind all that, low profitability in productive assets – even if the pandemic comes under control. Remember before this pandemic erupted across the world, most capitalist economies, including the US, were already tipping into a recession, with investment slowing or even falling and production and trade stagnating.

Can a Biden administration do anything about this and is it willing to do so? The ineffectiveness of monetary policy to restore the US economy has meant that mainstream economists are *"all Keynesians now".* The merits of increased government spending while running 'emergency' budget deficits are proclaimed by the IMF, the World Bank, the OECD and of course, the incoming Biden administration.

Janet Yellen, the former Federal Reserve chief under Obama, who is taking over as Treasury Secretary under Biden, made it clear in her testimony to US Congress where she stood. *"We need to act big"* because *"economists don't always agree, but I think there is a consensus now: without further action, we risk a longer, more painful recession now – and long-term scarring of the economy later."*

Thus we have Biden's new fiscal stimulus package to come in 2021. The main elements of Biden's stimulus plan include payments to individuals of up to $1,400 each; more aid to state and local governments; the extension of emergency jobless benefits of $400 per week; funds to help schools and universities to reopen; financing of vaccinations, testing and tracing; more child tax credit; and raising the minimum wage.

At first sight this looks big, to use Yellen's words, taking the total fiscal injection up to 25% of GDP. However, it is not really. First, many of these measures may not get through the US Congress despite the narrow majority that the Democrats now hold. Also, even this level of fiscal support is way short of what is needed keep 25m Americans from destitution or for local governments not to be forced into jobs and spending cuts to 'balance their books'. Moreover, raising the minimum wage to $15 an hour would still mean that those on the minimum would be well behind average median wage. And Biden is not intending to implement this rise immediately but spread it over five years!

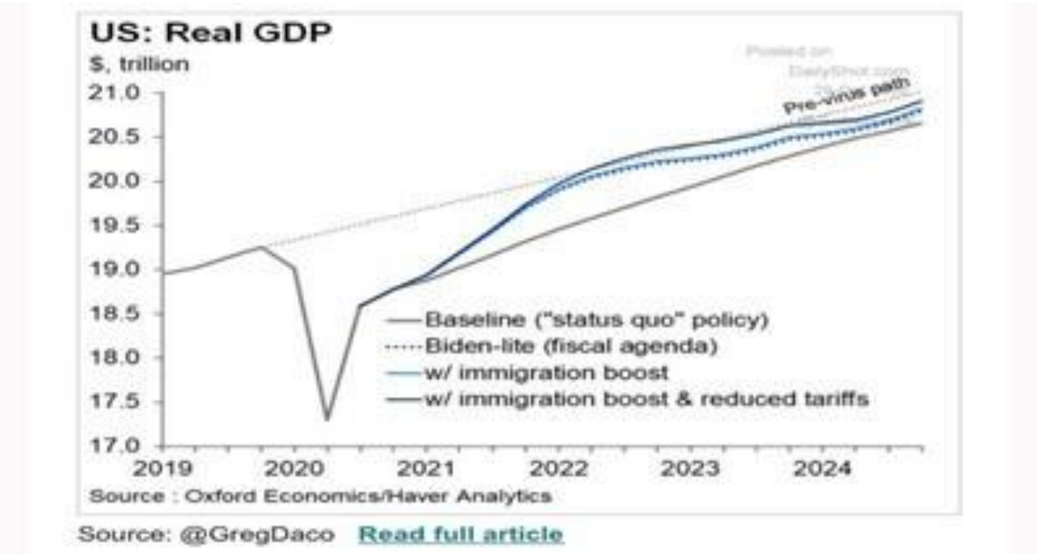
Biden also proposes to spend $2trn on infrastructure spending (something Trump never got round to) including 'clean energy' projects; just under $2trn on education and child care; $1.6trn on health care; $700bn on research and development; and $500bn on social security and housing. That's a total of $6.8trn, or just over 30% of current GDP.

Wow! That sounds great. But hold the train; this spend is over ten years! And this is just a proposal. Nobody expects all this extra 2% of GDP spending a year to be implemented by Congress, even one now ostensibly controlled by Democrats. Most estimates reckon that Biden's proposals would be cut by 60% to about $3tn. The infrastructure and education proposals would be reduced by half, the health proposals would be lowered by 60% and the proposals to invest in R&D and buy American goods would be cut by two-thirds.

And then there is the method of paying for this. Biden proposes to raise taxes by $2.4trn over ten years (or $1.2trn if the spend measures are reduced). So nearly half of the spending plans would be clawed back in taxation. Most of the tax revenue would come from the top income earners particularly those in the million-dollar bracket. Also, corporation tax would be raised from the current 21% under Trump to 24% – but that would still be well under the 28% under Obama, so corporations would continue to benefit from windfall profits. Indeed, the increase would raise only a paltry $725bn over ten years. There would be no increases in property taxes for the rich. Overall, the most likely net spend after taxes under the Biden plan would be just around $1.8tn over ten years, or no more than 0.8% of GDP a year!

So everything depends on the [‘Keynesian multiplier’]() i.e. the increase in real GDP growth induced from an increase in government spending. Say the multiplier was as high as 2 or even 3 in a ‘slump environment’ (that’s way higher than most studies show it would be ‘normally’ – it could be much lower than one), then Biden’s plan would boost real GDP growth next year by say 2% pts above the current likely growth rate next year. Biden’s plans also include boosting net immigration and pulling back on some of the tariffs on Chinese imports. Putting all this together, Oxford Economics reckons Biden’s plans would lead to a real GDP growth rate of 4.9-5.7% in 2021.

So even if it worked, Biden’s boom would amount to a maximum 2-2.5% pt of GDP boost to the economy over the next two years. That may get the US economy back to pre-COVID levels by the end of this year, but thereafter the growth trajectory would sink below even the weak pre-COVID growth path. The US economy would be trundling along at 1.5% a year for the foreseeable future and under 1% a year per capita GDP growth (after population increase is accounted for).



But these plans are unlikely to deliver anyway. Capitalist economies depend on investment by the capitalist sector. Capitalist investment in the US is about 15% of GDP, while government investment is less than 3% of GDP – that’s five times smaller. So it is the former that decides the pace of real GDP growth. Biden’s plans imply, at the maximum, an extra 1% of GDP in government investment. That’s not to be ignored, but hardly enough to compensate for any stagnation or decline in capitalist investment.

And that stagnation is likely unless the profitability of capitalist productive investment rises sharply under Biden. US corporate profitability is currently at a post 1945 low. Don’t be fooled by the huge profits being made by the likes of Apple, Microsoft, Facebook, Google, Netflix etc. The profits of the FAANGs are the exception that proves the rule. Outside this charmed circle, US companies are struggling to make sufficient profit to expand investment, despite historic low interest rates in order to borrow funds for investment. If interest rates do start to rise again in any recovery, particularly for small to medium sized companies which can only just service existing debts (so-called zombie companies), then far from a recovery, there could be a financial bust.

Total corporate profits (after government handouts are removed) have dropped by some 30%. And according to Bloomberg, in the US, almost 200 big corporations have joined the ranks of so-called 'zombie' firms since the onset of the pandemic. They now account for 20% of the top 3000 largest publicly-traded companies, with debts of $1.36 trillion. That means 527 of the 3000 companies didn't earn enough to meet their interest payments! So there remains a significant risk of a credit crunch and financial crash down the road, if the Fed largesse is curtailed.

And then there is the public sector debt. Under Biden's plan, the US Federal budget deficit will rise a cumulative $2 trillion during his first term. Publicly traded federal debt as a percent of GDP will increase from 108% when he takes office to 120% by the end of his term and 130% of GDP by the end of the decade. So even if the Federal Reserve maintains its current 'zero interest rate' policy and long-term bond yields remain low, the interest on government debt will rise by at least 1% of GDP. That will eat into available revenue to spend on public services. As public debt and the cost of servicing it rises, the pressure will mount on the Biden administration to 'balance the budget', revoke the spending plans and/or apply more tax increases on the general public.

You might say that politicians and mainstream economic policy have learnt their lesson and now realise that 'austerity' only makes things worse by reducing spending and 'effective demand'. So austerity policies won't be revived. After all, even the IMF is saying 'spend as much as necessary and don't worry about the consequences for debt now'. But that's now – in the depth of the pandemic slump. When debt costs and government measures mount on the capitalist sector, capitalism will look to protect already weak profits by cutting government taxes and spending.

The supporters of Modern Monetary Theory may cry out at this point and argue that governments do not need to borrow money through debt issuance and so run up interest costs. They can just get the central banks to 'print' the currency and put it in the government coffers. Rising public debt is then not an obstacle to government investment and spending in order to boost the economy and deliver full employment.

In a way, that is right if government spending is productive for the economy. But MMT does not take the decision-making on investment and jobs out of the hands of the capitalist sector. The bulk of investment and employment will remain under the control of capitalism, not the state. And as I have argued above, that depends on the expected profitability of capital. Let me repeat the words of Michael Pettis, a firm Keynesian economist: *"the bottom line is this: if the government can spend additional funds in ways that make GDP grow faster than debt, politicians don't have to worry about runaway inflation or the piling up of debt. But if this money isn't used productively, the opposite is true."* That's because *"creating or borrowing money does not increase a country's wealth unless doing so results directly or indirectly in an increase in productive investment…If US companies are reluctant to invest not because the cost of capital is high but rather because expected profitability is low, they are unlikely to respond ….by investing more."*

There is no doubt that net interest on government debt is very low historically, only slightly more than 1% of GDP a year compared to a GDP growth rate of 2-3% a year ahead. But some mainstream studies are less sanguine. The Peterson Institute argues that those "*who believe that rates will almost certainly not rise are too confident in their own views. The forces that have contributed to lower rates are universally difficult to predict, and, as noted* *above, even modest changes in rates can produce sizable movements in net interest as a share of the economy in the future.”* [*Fiscal resiliency in a deeply uncertain world: The role of semiautonomous discretion | PIIE*]

The main obstacle remains the willingness and capability of the capitalist sector to invest if profitability is low. How much government investment would be necessary to replace capitalist investment and get the US economy growing at rates that restore and raise real wages, achieve full employment and apply resources and innovation to combat climate change? It would require ‘war economy’ levels when federal government investment rose to 23% of GDP and the government controlled and directed the capitalist sector to invest. That is not on Biden’s agenda or, for that matter, on the agenda of MMT supporters, because such a move would be way more than just ‘stimulating’ the capitalist sector but would actually mean ‘replacing’ its investment role. It would mean an economic revolution not wanted by Biden, and not envisaged by MMT.

If the Fed goes on ploughing credit into businesses to prop up the ‘zombies’ at the expense of productive investment, then the US economy under Biden will just return to the low growth, low investment, low wage growth economy of the last ten years since the Great Recession. And if disillusionment in Biden’s policies rises, that could lay the political base for the return of something like Trumpism, which according to the Donald is *“just beginning.”*