

ATC Update 7th Jan 2021 – COVID-19, Inequality and the Anger of the Left Behind

What an extraordinary week since we did our 2021 Outlook!

The week began with PM Boris Johnson announcing the 3rd UK lockdown that may last up till 3 months as UK daily cases accelerate to 70,000 and deaths 1000+ that threatens to overwhelm the NHS.

Equity markets reach new all-time highs on vaccine and growth optimism. Oil prices spike on expected production cuts and perceived greater OPEC cohesion and discipline.

But US domestic politics is undoubtedly the dominate theme. Some initial signs of greater US political stability with the Democrats retaking control of Senate. With wins in both Georgia runoffs. Mr. Warnock and Ossoff pulling off a shock defeat of two well-entrenched incumbents and the leaked tape of President Trump pressuring Georgia officials to “find his lost votes” likely drove some moderate Republican voters to abstain or switch to the Democrats. So we should be relieved that US politics is “normalising”. But like the very best Hitchcock thriller, or perhaps reality show, we didn’t have to wait long for the spectre of instability and Trumpism to return.



The unprecedented scenes of Trump supporters attacking and occupying the US Capitol building on Jan 6 have shocked not only the US but the world. That the leader of the “Free World” should suffer such an attack on democracy in an attempt to prevent the lawful transfer of power, has drawn global

condemnation. As indeed has the response by President Trump, who tweeted Jan 6 :

"These are the things and events that happen when a sacred landslide election victory is so unceremoniously & viciously stripped away from great patriots who have been badly & unfairly treated for so long. Go home with love & in peace. Remember this day forever!"



The DC National Guard was mobilised and finally, the protesters dispersed. Congress reconvened and finished the ratification of Joe Biden as the 46th President of the United States.

UK prime minister Boris Johnson condemned what he called the “disgraceful scenes in US Congress ” and said that. “The United States stands for democracy

around the world and it is now vital that there should be a peaceful and orderly transfer of power,”

Swedish prime minister Stefan Lofven was more directly critical stating that “President Trump and many members of Congress bear significant responsibility for what’s now taking place...The democratic process of electing a president must be respected.”

In China, the state-run Global Times – a mouthpiece for the Chinese communist party – sought to draw an equivalence between Hong Kong’s pro-democracy protesters and those in the US seeking to subvert the democratic process.

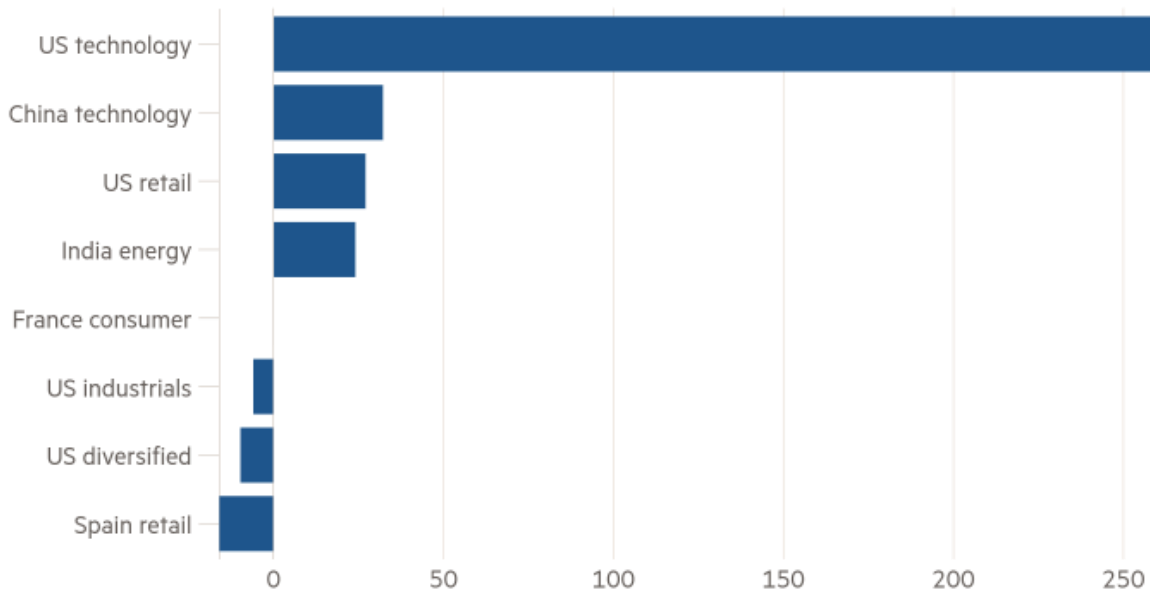
Russia’s deputy UN ambassador Dmitry Polyanskiy appeared to revel in the unrest in Washington. He posted: “Quite Maidan-style pictures are coming from DC... Some of my friends ask whether someone will distribute crackers to the protesters to echo Victoria Nuland stunt,” on Twitter, referring to protests in Ukraine that toppled the Russian-backed president of Ukraine, Viktor Yanukovich, in 2014...and the 2013 visit to Ukraine when the US assistant secretary of state, Victoria Nuland, offered food to protesters.

Covid has accelerated Societies Economic Divisions

But this is not an isolated incident but reflects the impact of the Covid crisis in intensifying the divisions in society between the haves- and have-nots that fuelled the election of Trump and Brexit in the first place. Those drawing comfort from the new record highs in US equities is mistaken. Covid has accelerated many trends, but the most worrying is the massive wealth and income inequalities. The people storming the US Capital on Jan 6 represent a much broader segment of society that is angry and frustrated by the economic pain and hopelessness they feel. Such sentiment, or more precisely resentment, has been exacerbated by new record highs in stocks, record earnings for Wall Street banks, and \$ 200bn Jeff Bezos and \$ 170bn Elon Musk net worth.

US tech billionaires dominate wealth creation this year

Top 20 billionaires, net worth change, year to Oct 20, \$bn



Source: Bloomberg
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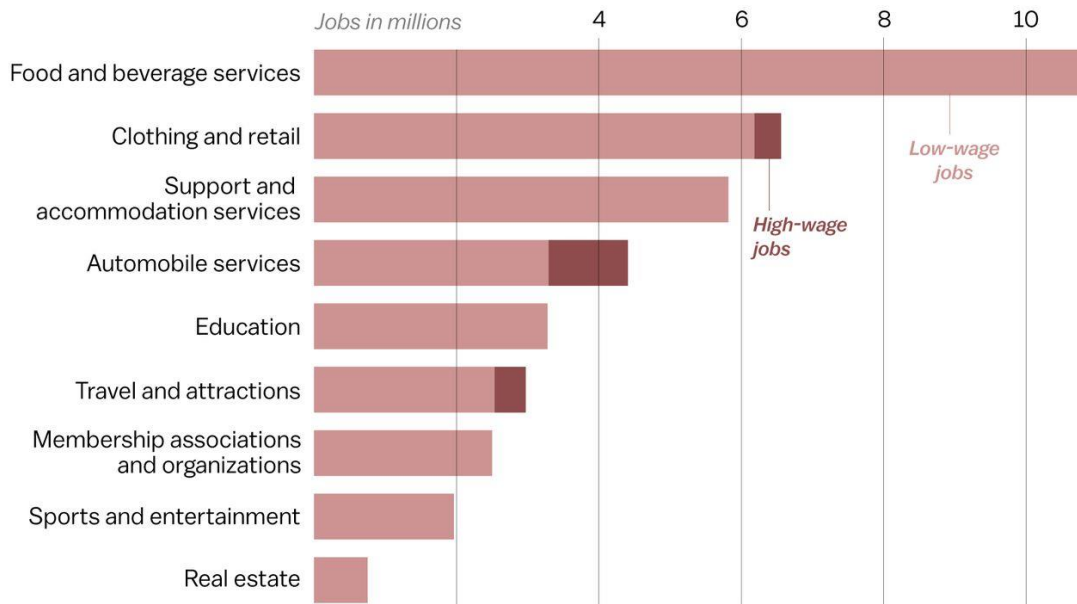
The massive monetary and fiscal liquidity injections that have underpinned these massive gains in financial markets may have been a necessary attempt to stabilise economies. But it has also deepened the fissures in society.

	CENTRAL BANK LIQUIDITY INJECTION		GOVERNMENT FISCAL STIMULUS		CENTRAL BANK LIQUIDITY INJECTION + GOVERNMENT FISCAL STIMULUS	
	\$ Trillion	% of GDP	\$ Trillion	% of GDP	\$ Trillion	% of GDP
U.S.	\$2.50	11.7%	\$2.71	12.7%	\$5.21	24.3%
Eurozone	\$1.10	8.3%	\$0.48	3.6%	\$1.58	11.9%
Japan	\$0.20	3.9%	\$0.55	10.7%	\$0.75	14.6%
U.K.	\$0.25	9.0%	\$0.04	1.4%	\$0.29	10.4%
China	\$1.22	8.5%	\$0.11	0.8%	\$1.33	9.4%
Others*	\$0.62		\$1.63		\$2.25	
Total	\$5.88	6.8%	\$5.53	6.4%	\$11.41	13.2%

President-elect Biden received 306 electoral votes and more than 80 million popular votes, the most of any presidential candidate in American history. But it's important not to overlook the fact that Trump himself won the second-largest number of popular votes in American history (74 million), and Republicans won enough votes down the ballot to make inroads in the House of Representatives as well as critical gains in statehouses and legislatures. As Ian Bremmer of Eurasia Group, in his "Top Risks for 2021 Report" has noted: "A challenge for Democrats—increasingly a coalition of college-educated urbanites—is that Trump's popularity extends well beyond his most vocal supporters. He received 11 million more votes than he did in 2016 and, in so doing, constructed a broader electoral coalition that includes more Hispanics and Black Americans. A significant segment of that coalition sees Trump's refusal to concede as a display of courage, not an assault on democratic norms." He goes on to note that the last minute push by members of Congress to delay or derail the election certification serves as a foreboding sign of what's to come. As long as a significant portion of Trump's voters remains loyal, he will cast a long shadow, compelling Republican leaders to support him to avoid alienating his backers. For them, Biden will be #NotMyPresident and considered illegitimate.

Another important observation from the Eurasia Report is that "A K-shaped recovery, in which some groups thrive and others increasingly suffer, will plague all countries. Those who have borne the brunt of the virus—low-income and minority communities, women, and especially those people who work in the service sector—will also experience the most protracted drag on their earnings potential and the most uncertain path back to stable employment." It goes on to note that The wallop this year. With few exceptions, the pandemic did not destabilize governments in 2020 or create existential economic crises. Instead, it generated a rally around-the-flag effect that compelled central banks to inject massive liquidity. But 2021 will expose the underlying vulnerabilities of many markets. Governments will grapple with the impact of the 2020 recession, massive debt increases, and thinner social safety nets.

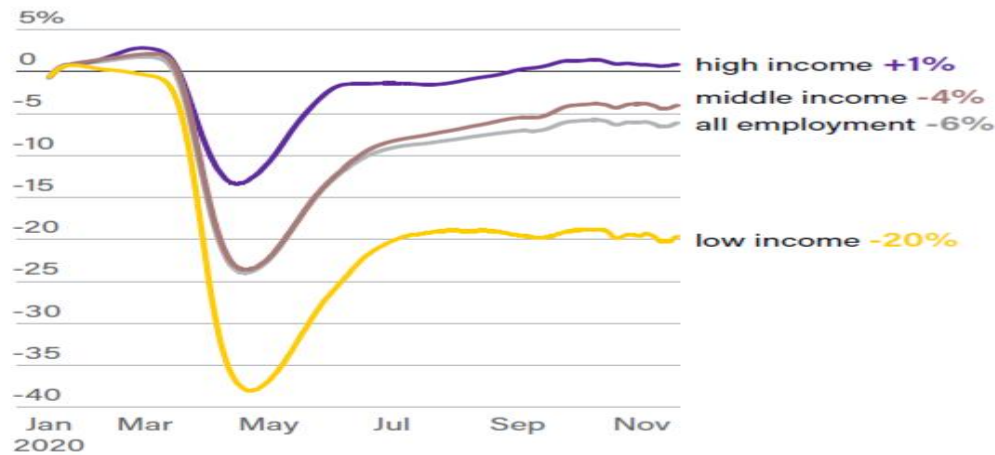
Jobs vulnerable to layoffs during the Covid-19 pandemic in the US by industry



Note: "Low income" jobs are defined as making a weekly income of less than \$801.47. Values are rounded.
Source: US Private Sector Job Quality Index

Vox

Changes in US employment

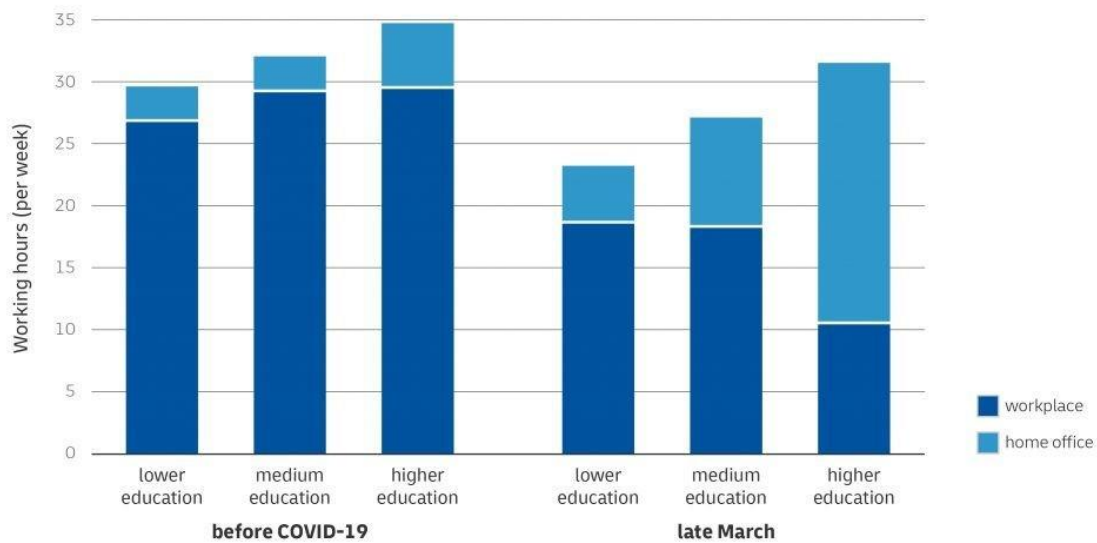


Source: tracktherecovery.org

“Instability and anti-incumbent anger will grow around the world, leading to more protests and new opportunities for populist candidates. In the US, the K-shaped recovery will deepen the polarization sustaining Trump’s following and decreasing the quality of governance. Across developing markets, the stratified recovery will make already difficult governance harder for similar reasons.”

Lockdowns have also had the biggest impact on the poor who cannot work from home as easily as the Middle class as shown in the chart below.

Figure 1: Working hours distributed between workplace and home office, according to highest educational level, before crisis and late March



I Z A Institute
of Labor Economics



Note: lower education = lower secondary and less
medium education = upper secondary
higher education = tertiary

Finally, don't assume that the increased polarisation and division of society will be limited to the US. While the rest of the world is, correctly, condemning the Capitol incident and President Trump, don't forget Brexit, student riots in Paris, anti-migrant protests, and the rise of the right-wing in Germany. 2021 is likely to see the protests from those who feel left behind and aggrieved by Covid and the policy responses to its increase. The UK decision to move to tier 5 has already triggered lockdown protests. We should more and in many other countries. Expect a global democracy to face instability in 2021 financial market insulation to prove temporary if, as is likely, global vaccine rollouts become delayed or ineffective due to further Covid mutations.

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