Opinion **US economy**

Who will pay for the shift from efficiency to resilience?

Western politicians want companies to foot the bill for post-neoliberal economics

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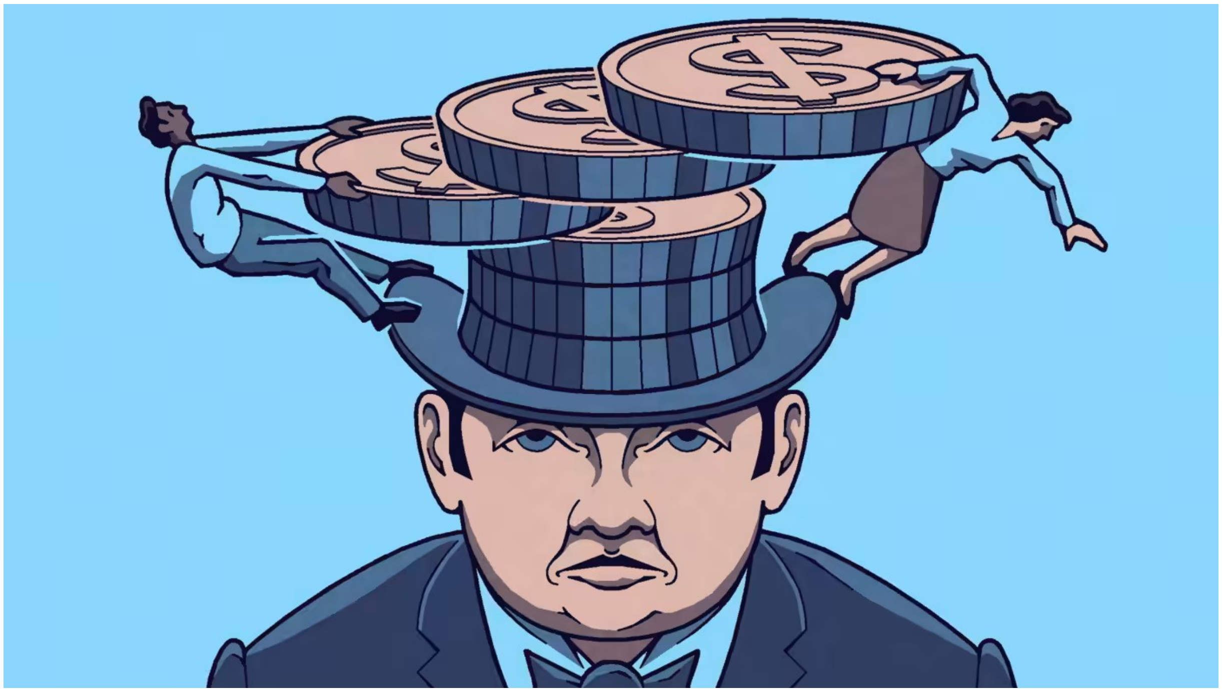

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Rana Foroohar 14 HOURS AGO

Are we entering a new era of wealth redistribution? Or will the imbalances between capital and labour that have characterised the past half century of economic history linger on?

It's a question worth asking, particularly in the US, as inflation bites and midterm elections loom.

A little over three years ago in this column, I argued that we were leaving the era of wealth accumulation that began with the Reagan-Thatcher revolution and moving to a new era in which the balance of power between capital and labour would shift somewhat in the direction of the latter.

Putting aside the UK's new prime minister Liz Truss, who seems to want to bring back the 1980s, I think we are finally entering the post-neoliberal era, particularly in the US, where the power imbalances are most pronounced.

There has been, in many OECD nations, a decoupling of productivity and wages over the past 40 years, during which time the corporate sector took a larger share of national income gains. But while 55 per cent of productivity gains in western Europe still go to labour, American workers have to duke it out for a mere 14 per cent — and most of that goes to the top third of workers.

Deglobalisation, which will favour local labour markets in some industries, is starting to shift that dynamic. Ageing demographics, which will create a structurally tighter labour market, as well as millions of new onshore jobs in the caring professions, is too.

But the third part of the capital-labour story is the increasing pressure on companies to bolster the position of consumers and the state in a time of rising costs. Inflation is happening for all sorts of reasons, but one of those is a shift in economic focus from efficiency to resilience. Both the public and private sectors are looking to buffer themselves from climate change, geopolitics and market shifts. Changes in supply chains, reserve currency allocations and fiscal policies are all part of this. But resilience costs money. The question is, who will pay?

Governments want companies to bear some of the burden. Consider the discussion about price controls in the energy and power sector, as the G7 nations look for ways to curb spiralling gas and electricity costs. The EU is hoping to levy windfall taxes on non-gas electricity producers when their market prices exceed a certain threshold.

In the US, Congress wrote price controls on prescription drugs into the Inflation Reduction Act budget bill in August. There is also a push to put a floor under labour markets across entire industries (something that's atypical in America, where unionisation usually happens company by company). California's governor Gavin Newsom just signed a bill that may increase wages in the fast-food industry to $22 an hour starting next year. Even the business-friendly commerce secretary Gina Raimondo is advocating that companies pony up more to help pay for worker training and childcare.

There is also a huge push around President Joe Biden's worker-centred trade policy, which was front and centre at last week's Indo-Pacific Economic Framework for Prosperity Ministerial in Los Angeles. Some national security officials are eager to cut new deals with countries such as Vietnam, Malaysia, Thailand and Brunei as part of America's effort to increase its own economic and security power base in Asia to counter China.

Katherine Tai, the US trade representative, is keen to ensure domestic labour doesn't suffer in the process, as are progressives such as Rosa DeLauro, Elizabeth Warren and Bernie Sanders. They, along with 42 House Democrats, wrote a letter to the Biden administration last week requesting more transparency around the Asia trade negotiations, so they don't become a race to the bottom.

As Tai put it to me: "There's a lot in play in terms of balancing domestic and international economic policy." But new trade deals, in her view, must not mean lower wages for American workers, lower environmental standards or allowing multinational companies to avoid taxes or lock in monopoly power. "This is about building the economy from the bottom up and the middle out," she says.

Tai only controls trade talks. The Department of Commerce, which has been more sympathetic to Big Tech, for example, is in charge of talks around supply chains, infrastructure and tax. And security hawks are sympathetic to the "bigger is better" argument being put forward by corporate America.

But it would be folly for Democrats to do anything that is seriously problematic for the labour outlook, in advance of the autumn midterm elections. Recapturing the working class is crucial to keeping a majority in Congress. Research shows that the Democratic loss of factory towns (such as the one I grew up in) hollowed out by the past 20 years of neoliberal trade policy are a large part of what made Donald Trump possible.

President Biden has always been sympathetic to labour interests and key appointees such as the Federal Trade Commission's Lina Khan and the Securities and Exchange Commission's Gary Gensler have put this at the heart of their mission. But to make the "work not wealth" slogan really meaningful, Democrats need to win big in the midterms. If they do, look for the capital-labour power balance to shift even further.

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