Opinion

Biden should beware liberal identity politics

AMERICA
Edward Luce

There is a fine line between championing diversity and embracing identity politics. In practice, it should be a bright red one. But, as Joe Biden, the US president-elect, is discovering, it is hard to please all your constituents all of the time.

In the past three weeks, Mr Biden has made good on his promise to unveil "the most diverse cabinet in history" — with several big appointments to come. Yet the pressure on him to be even more inclusive has only grown louder.

The danger is that Mr Biden will be lured into an unwinnable game of tokenism. He is almost destined to fall out at some point with the progressive wing of the Democratic party. With the Senate likely to be controlled by the Republicans, Mr Biden's only chance of passing significant bills will be to strike deals with the few moderate Republicans and hope that more leftwing senators, such as Bernie Sanders and Elizabeth Warren, will see no option but to vote Yes.

Whatever emerges from such bipartisan sausage-making will look like thin gruel to the left. Mr Biden's other avenue to making his mark will be to do as much as he can by executive order. Here, too, the results are unlikely to satisfy his base. The US Supreme Court has moved right since Barack Obama's presidency and today's 6-3 conservative majority court is likely to look askance at executive moves to regulate carbon emissions and bolster labour unions.

Faced with a system that appears to block change at every juncture, progressives' frustration will only grow. The pressure on Mr Biden to drift into identity issues to placate the left will be hard to resist. That could include extending affirmative action, backing campus speech restrictions and reinstating Obama-era rules on gender identity in schools. But it will come with price tags.

> The challenge for the Democratic party is whether it can win back white working class voters

The most obvious is that it is not good politics. Mr Biden got 7m more votes than Donald Trump in last month's election. But most of those who switched to Mr Biden for president appear to have reverted to Republicans for the down-ballot races. Democrats lost 10 seats in the House of Representatives and failed to regain a single state legislature. They would be lucky to win both run-off Georgia elections next month to recapture the Senate.

In other words, Mr Biden won on November 3, but Democrats lost, and the party is bitterly debating whether to blame the left or the centre. It is instructive that in California, where no ethnic group has a majority, voters went heavily for Mr Biden but emphatically rejected a measure to allow the state's public bodies to engage in affirmative action. Yet in Florida, which Mr Trump won, voters strongly endorsed a measure to raise the minimum wage to $15. Together these results should tell the Democrats to focus on the economic woes that Americans have in common, rather than moral grandstanding.

There should be no trade-off between promoting diversity and confronting economic fairness. Democrats should also pay heed to the remarkably high share of minority votes that Mr Trump received. He took almost a third of the Hispanic and Asian American vote — and just under a fifth of African American males. After four years of unapologetic racism, Mr Trump's share of the non-white vote went up. Something is not working for the Democrats. Clearly many non-white voters want more from the party than simply being anti-racist. As one African American Democrat told me: "People living on the South Side of Chicago are nearly as cynical about Democrats as the white working class."

That brings up identity liberalism's second big cost. About 74m Americans voted for Mr Trump in the highest turnout US election since 1900. To be sure, Mr Biden won with 81m but he failed to make large inroads into the white non-college educated vote. This is in spite of the fact that his blue collar credentials were far stronger than Hillary Clinton's. Mr Trump made overt racial appeals to that demographic and tried to make suburban voters believe that Mr Biden would socially engineer multiracial neighbourhoods. The second effort clearly failed as suburban voters shifted to Mr Biden quite sharply.

But what about America's blue-collar voters? Perhaps Democrats find it easier to write them off as racist than to do anything about their poverty. But Mr Biden should not need to make the choice. The challenge for the Democratic party is whether it can win back white working class voters faster than Republicans win over non-white voters. At the moment that is an open question. The fate of Mr Biden's presidency — and his party — may rest on the answer.

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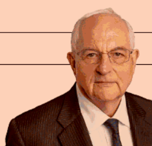
There is no stock market bubble

Martin Wolf Economics

The bigger question is whether rock-bottom interest rates will revert to 'normal' and, if so, when



Are stock markets, especially the US market, in a bubble that is sure to pop? The answer depends on prospects for corporate earnings and interest rates. Provided the former are strong and the latter ultra-low, stock prices looks reasonable.

The best-known measure of market value — the "cyclically adjusted price/earnings ratio" of Yale's Nobel laureate, Robert Shiller — is indeed flashing red. One can invert this metric, to show the yield: on the S&P Composite index, this is just 3 per cent today. The only years since 1880 it has been even lower were 1929 and 1999-2000. We all know what happened then.

Another price is also exceptionally low by past levels: interest rates. The short-term nominal interest rate is near zero in the US and other high-income economies. US short-term real interest rates are about minus 1 per cent. Real yields on US 10-year Treasury-inflation-protected securities are minus 1 per cent. In the UK, yields on similar securities are about minus 3 per cent. (See charts.)

Desired returns on equities ought to be related to the returns on such supposedly safe assets. This relationship is known as "the equity risk premium", which is the excess return sought on equities over the expected returns on government debt. This premium cannot be measured directly, since it only exists in investors' minds. But it can be inferred from past experience, as explained in a 2015 paper by Fernando Duarte and Carlo Rosa for the New York Federal Reserve. More recently, in the *Credit Suisse Global Investment Returns Yearbook 2020*, Elroy Dimson, Paul Marsh and Mike Staunton of the London Business School estimated the excess return on world stocks over bonds at 3.2 percentage points between 1900 and 2020. For the UK, the excess is estimated at 3.6 percentage points; for the US, at 4.4 percentage points.

Are these excess returns in line with what people initially expected? We do not know. But they are a starting point. The premium demanded now might be lower than that sought for much of the past 120 years. Corporate accounting has improved greatly. So, too, has macroeconomic stability — at least by the wretched standards of the first half of the 20th century. Moreover, the ability to hold diversified portfolios is far greater now. Such changes suggest the risk premium, often believed to be excessive, should have fallen.

The Credit Suisse study estimates aggregate real returns on stocks and bonds in 23 markets weighted by market capitalisation at the start of each year. It shows, interestingly, that the excess return of equities since 1970 have been very low and since 1990 negative. But this is because of very high real returns on bonds, as inflation and real interest rates collapsed. Looking ahead, it estimates the prospective excess return of equities at 3.3 percentage points. This is the same as the long-run historical average. Estimates of Shiller's metric do not exist for such lengthy periods for non-US stock markets. But estimates can be made since the early 2000s. The cyclically adjusted earnings yield is currently 7.6 per cent on the FTSE 100, 5.4 per cent on the DAX 30 and 4 per cent on the Nikkei 225. At current real interest rates on long-term bonds, the implied equity return premium is thus over 10 percentage points in the UK, over 7 percentage points in Germany and 4 percentage points in Japan and the US. The UK market looks extremely cheap today, perhaps because of the Brexit lunacy. Japan and the US look well valued, but not, by historical standards, overvalued.

> Equity investors might now be demanding a much lower risk premium than in the past 120 years

Further support for the rationality of the US market today is that 55 per cent of the increase in the S&P 500's market value over the past 12 months is due to gains in the information and technology sector. This makes sense, given US dominance in these areas and the technological shift of 2020. We should also note that real interest rates below zero make future profits more valuable than profits today, in terms of present value. Looking through the short-term impact of Covid-19 makes sense.

Given the interest rates, then, stock markets are not overvalued. The big questions are whether real interest rates will jump, and how soon.

Many believe that ultra-low real rates are the product of loose monetary policies over decades. Yet, if that were right, we would expect to see high inflation by now.

A better hypothesis is that there have been big structural shifts in global savings and investment. Indeed, Lukasz Rachel of the Bank of England and Lawrence Summers of Harvard argued in Brookings Papers 2019 that real economic forces have lowered the private sector's neutral real interest rate by 7 percentage points since the 1970s.

Will these structural, decades-long trends towards ultra-low real interest rates reverse? The answer has to be that real interest rates are more likely to rise than fall still further. If so, long-term bonds will be a terrible investment. But it also depends on why real interest rates rise. If they were to do so as a product of higher investment and faster growth, strong corporate earnings might offset the impact of the higher real interest rates on stock prices. If, however, savings rates were to fall, perhaps because of ageing, there would be no such offset, and stock prices might become significantly overvalued.

Some major stock markets, notably the UK's, do look cheap today. Even US stock prices look reasonable, valued against the returns on safer assets. So will the forces that have made real interest rates negative dissipate and, if so, how soon? These are the big questions. The answers will shape the future.

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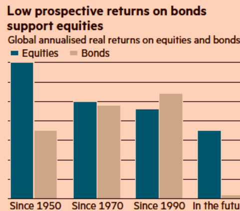
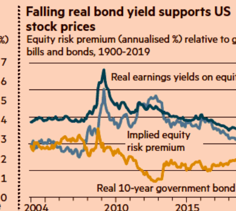
Low prospective returns on bonds support equities
Global annualised real returns on equities and bonds (%)



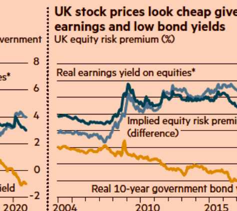
Source: Dimson, Marsh & Staunton, 'Triumph of the Optimists' (Princeton, 2002) and 'Global Investment Returns Yearbook' (Credit Suisse, 2020)

Falling real bond yield supports US stock prices
Equity risk premium (annualised %) relative to government bills and bonds, 1900-2019



* The inverse of Shiller's cyclically adjusted price/earnings ratio, expressed as a percentage
Source: Robert J Shiller, Refinitiv, FT calculations

UK stock prices look cheap given high earnings and low bond yields
UK equity risk premium (%)



* The inverse of cyclically adjusted price/earnings ratio on FTSE 100, using Shiller's method
Source: Robert J Shiller, Bank of England, FT calculations

Would it be better to divert early booster shots to the unprotected?

SCIENCE
Anjana Ahuja

In 2016, as a yellow fever outbreak crept closer to major cities in Angola and the Democratic Republic of Congo, the World Health Organization took a calculated gamble.

Faced with vaccine shortages, it recommended the splitting of doses. More than 7m children and adults in Kinshasa, among others, received only a fifth of the usual dose. That fractional amount, researchers later found, induced good levels of protective antibodies that were still detectable a year later. A year of protection is better than none in a raging epidemic. Could veering off-script in the rollout of Covid-19 vaccines also be in the public interest? The Pfizer/BioNTech vaccine, the first to be deployed in the US and UK, officially requires two doses given 21 days apart.

But, instead of issuing first doses and reserving supplies to give boosters later, some people advocate dispensing all doses now and giving boosters when further supplies allow. In the US, this option means 40m would get a first dose of the Pfizer/BioNTech vaccine, instead of 20m receiving two doses. The UK is currently rolling out 800,000 doses, with another 4m due by the end of December.

The idea was floated recently by Scott Gottlieb, the former head of the US Food and Drug Administration who now sits on the board of Pfizer.

"I feel very strongly that we should get as many shots in arms as possible, right away," Mr Gottlieb told USA Today last week. "The reality is that one dose is partially protective. I just fundamentally disagree with [saving half the supply for January]."

The vaccine is 52 per cent effective after the first dose, rising to 95 per cent after the booster.

> Leaving vulnerable people unvaccinated while second doses languish in fridges is also a risk

His view is that immediate deployment maximises the health benefits of a life-saving intervention. It is not a risk-free strategy: unforeseen delays to supplies next year could hamper the rollout of boosters. Still, leaving vulnerable people unvaccinated while second doses languish for weeks in fridges, is also a risk.

There is another point in Mr Gottlieb's favour: there is no firm evidence that boosters must be timed precisely to be efficacious. While second doses dramatically enhance protection, dosing intervals are not set by any immutable commandments of vaccinology. The WHO vaccine tracker, for example, shows a variety of dosing schedules, mostly modelled on past convention.

"It's like a random number generator," says Danny Altmann, professor of immunology at Imperial College London. "Some doses are 28 days apart, while others are 21 or 14. That doesn't reflect the fundamentals of the immune system but a tweaking of the trials that gave slightly better data. You could probably merge them all and come out with one common protocol that would work pretty well for all of them." A handful of trials have offered a second or third dose on day 56. Intriguingly, in the Oxford/AstraZeneca vaccine trial, some volunteers in the under-55 subgroup showing the highest efficacy had their second jabs as long as eight weeks after the first. Routine boosters for other diseases are also put off for multiple reasons — holidays, clinic closures, delayed deliveries, forgetfulness — without efficacy being a worry.

As Professor Altmann concludes: "If I were an NHS adviser or a vaccine producer running a huge logistical operation, I'd probably want to stick to protocol. But if you ask me: does the timing of the booster really, really matter all that much? Probably not. In vaccinology, when push comes to shove, if we're trying to save lives we sometimes break protocol, as happened with yellow fever."

The coronavirus pandemic also shows that, in extremis, vaccinology conventions can be challenged. The dosing error that dogged the Oxford/AstraZeneca trial was unexpectedly associated with better results. Scientists have not ruled out mixing and matching first and second doses from different vaccines, depending on availability.

Volunteers who drop out of clinical trials after a first dose of one Covid-19 vaccine in order to receive a different, approved jab, will be a fascinating cohort to watch.

There might be just enough scientific leeway, and encroaching danger, to reasonably discuss bending the rules to deploy all Covid-19 vaccine doses now. Christmas approaches. Infection rates are rising. Hospitals are filling up. More vaccines are coming next year.

Mr Gottlieb's approach of emptying the armoury now is a gamble — but so is holding back half of the ammunition when other cavalries are on their way.

The writer is a science commentator