



Trump's RNC Speech, as published on KSNT.com – Photo credit AP Photo/Alex Brandon

## 2020 US Election Commentary

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**7<sup>th</sup> September, 2020**



**By Nigel Lake, Founder  
New York**



Trump's RNC Speech, as published in Rolling Stone Magazine - picture credit SAUL LOEB/AFP via Getty Images

**No, this is not just another US presidential election cycle, and there's a reason you've never seen a picture like this before, at least from America.** Social tensions have intensified greatly over the last few years and the political divide between left and right is now a gaping chasm. Indeed, domestic politics are more extreme than I've seen in any developed country in my lifetime, and political tactics frequently lie somewhere between the gutter and a third world kleptocracy. On both sides of the Washington aisle, there is near unanimity that the outcome of this election will define for decades to come what it means to be American, and what America means to the world.

Way back in 1987, I spent my first "long vacation" from Cambridge University working at the Environmental Research Lab in Tucson, Arizona. Ten weeks in the blazing desert heat, punctuated by occasional trips up to the idyllic Alpine magic of Mt Lemmon, provided an eye-opening experience in the inherent contrasts of life in America, both at work and play. But, through it all, it was clear that the nation's citizens were Americans first, united by a common belief in the power of US democracy, with politics trailing far behind. Respect for the political infrastructure and Office of the President was universal. In comparison, the country today is almost unrecognisable.

I've lived in New York for the last five years, and I was a regular visitor to the USA for the five before that. As a result, I've had a bird's eye view of how America has evolved in the last decade or so. **To understand this election, it's essential to take in what is happening at a State level, politically, economically and socially.** And it's also critical to understand how the electoral math may play out, not only in the electoral college, but also in the House of Representatives and Senate. Key roles in individual states matter too, especially Governors and Attorneys General, as they can have a profound influence on policy issues that impact both local and national elections over the longer term. Remember this is census year, so incoming

governments will have control of how boundaries are redrawn in the light of census findings.

But, before diving into that, let's take a step back and reflect on what has unfolded over the last few years. To inform these views, there are now a couple of dozen books – written by both Democrats and Republicans – which paint the picture so brightly that George Orwell's 1984 now reads like a thoroughly unimaginative author's grey first attempt at a novel. Though some are sophisticated in weaving a story that is subtly favourable to their own beliefs, others deliver a more raw and honest view. Either way, real-time media reporting provides a record of both facts and how they have been spun over the last 44 months.

**1. Separation of Powers** The American Constitution rests on the Separation of Powers between a Legislative Branch (Congress) which creates laws, an Executive Branch (the President) which approves and carries out the laws, and a Judicial Branch (the Supreme Court) which interprets the laws. Incidentally, this structure is replicated in individual States too. Various laws have been enacted to preserve and protect this structure, which was designed to provide some protection should one of the branches fail to perform. One of these is the Hatch Act of 1939, "An Act to Prevent Pernicious Political Activities". You will hear a lot more about this. Amongst other things, this makes political activity by any employee of the executive branch of government illegal, other than the President and Vice President. It also makes use of government property for political purposes illegal too. The last few years have seen a rapid escalation in ostensible breaches of this act, culminating in the use of the White House as the backdrop for part of this year's Republican Convention. Not long ago, the view was: "Very clearly, it is wrong to use government property, government assets for political purposes" (David McIntosh – R-IN). Today, the President's Chief of Staff Mark Meadows says: "Nobody outside of the Beltway really cares,". Times are changing.





As pictured in the Financial Times: Ivanka Trump with world leaders at the G20 summit in Osaka on Saturday © AAP/dpa

**2. Graft** For the first time since Gerald Ford, the president has not released his tax returns, though even Ford released summary tax data. Unlike previous administrations, this President's assets have not been placed in a blind trust or even under independent management – his primary business is run by two of his children who remain closely involved in politics. Numerous visits to his own hotels and golf resorts generate material income for these properties, not least as he is accompanied by a host of official staff and security, all of whom must be bought rooms to sleep in and food to eat. Visits by both the president and members of the Executive Branch also serve to provide significant free publicity. Indeed, not long after his appointment, the president took to referring to one of his commercial properties as the “Winter White House”, and doubled the membership fees. The rules of the game are changing.

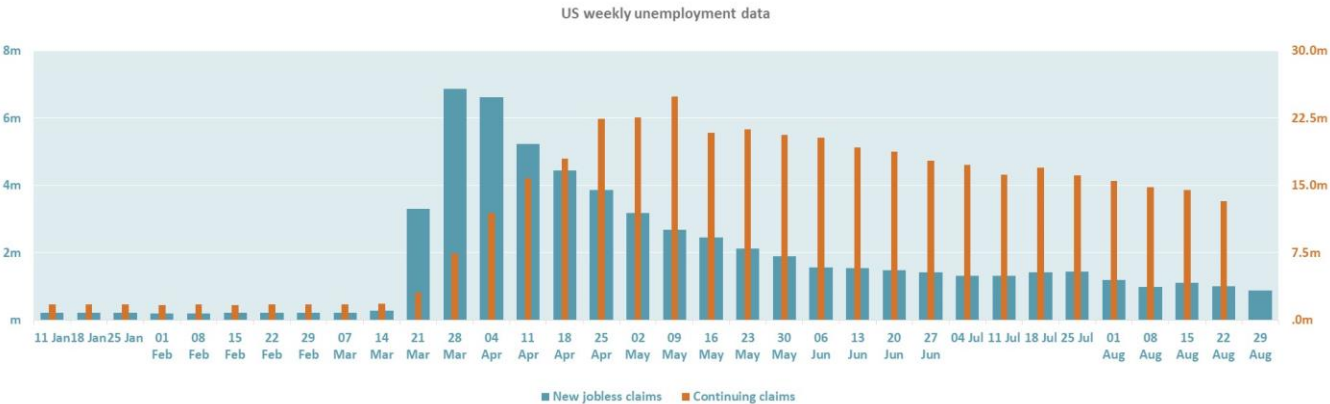
**3. Nepotism** Several members of the president's direct family have roles within government. To facilitate this, the President overrode the recommendations of the country's national security services to grant his son-in-law the highest level of security clearance. There is extensive reporting that these people and their businesses have leveraged their position to secure intellectual property rights, business deals and financing. In addition, half of the keynote speakers at the recent Republican National Convention were members of the president's direct family. Under any previous presidency, all of this would have been unthinkable, as would the lack of transparency about many of these arrangements. The rules of the swamp are changing.

**4. Litigation** These breaches of current laws have not gone unchallenged. The president is party to a plethora of legal actions covering far too many topics to address in detail here. As one example, in 2019, the closure of the Donald J. Trump Foundation was ordered by a New York court, following numerous breaches of charity laws, illegal use of charitable funds for political purposes, use of foundation funds to settle personal legal disputes and to acquire goods and services for personal use. The settlement of this action included a US\$2m fine and imposed restrictions on Donald J Trump should he join another charity as a director. Beyond the president's family, there have also been numerous arrests and indeed convictions amongst previous members of his administration, including Roger Stone, Paul Manafort (his Campaign Chairman), Michael Cohen (personal lawyer), Michael Flynn (National Security Advisor), Rick Gates (Deputy Campaign Chairman) and most recently Steve Bannon. Ethical standards are changing.

**5. Campaign finance** As in most countries, the USA has strict legislation which controls how presidential and other campaigns can raise money, restricts the amount of investment which can be made, requires transparency as to how funds are spent and imposes onerous reporting requirements. There have been numerous reports of potential breaches of campaign finance laws by the current president, ranging from minor technicalities to hush-money payments made by his lawyer Michael Cohen. One recent complaint filed with the Federal Election Commission which oversees such matters claims that the destination of some US\$170m of campaign spending has been shielded from view by washing through firms headed by a former campaign manager. These complaints, however, remain moot. Only three out of the requisite six commissioner seats are currently filled at the Federal Election Commission. A minimum of four Commissioners are required for any official Commission action. As a result, the rules of campaign finance are changing, unsupervised.

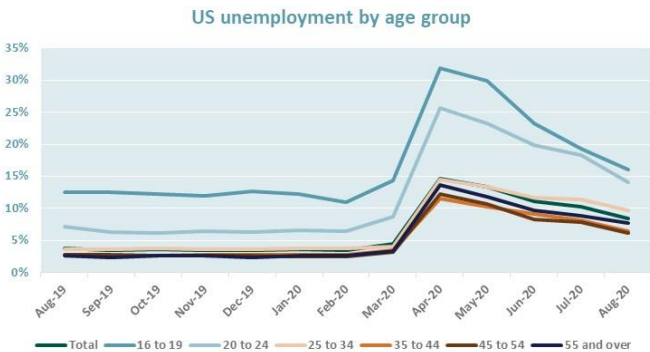
#### REPUBLICAN NATIONAL CONVENTION KEY SPEAKERS





**6. The economy** America is living through the fastest and deepest recession in a century. Some signs of an economic slowdown were already beginning to emerge even before the COVID-19 outbreak hit hard, though weekly new jobless claims remained at around 200,000. The end of March and early April saw truly shocking figures reported (see chart above), setting new records at levels that would previously have been inconceivable. Since then, new jobless claims have declined – though they are still running at around one million per week, roughly five times the level seen over recent years. In short, the economic pain across America is severe.

Some age groups have been particularly badly affected – unemployment amongst those aged 20 to 24 nearly quadrupled from 6.4% in February to 25.7% in April (and 28% for women in that age group) and remains around 14% in the latest figures.



We'll return to this later, but in the meantime it's particularly important to understand the domestic policy changes that have already been implemented. Federal tax cuts in 2017 delivered significant savings to many taxpayers, though the benefits were skewed to the top few percent of society (see the table at the bottom of this page).

These tax cuts also delivered a significant profit boost to the corporate sector, with the large majority of this flowing through to shareholders. Many large companies, including Amazon, Chevron, General Motors, Halliburton, Netflix and IBM paid no Federal tax in 2018, a common problem for many governments around the world – indeed these companies all received net refunds.

The starkest illustration of all this is the stock market. Since the end of 2019, the Nasdaq Composite Index is up 30%, in an economy that contracted at an annual rate of over 30% in the three months to 30th June.



The American Dream is alive and well on Wall St, but on Main St the shops are boarded up and life is much tougher. The land of opportunity is changing.

Income band	Proportion of society	Number of tax refunds	Average value of refund
Nil to \$50k	39.9%	- 4.5%	-2.7%
\$50k to \$100k	29.7%	+2.5%	-1.8%
\$100k to \$200k	21.9%	+45%	+203%
Over \$200k	8.5%	+216%	+394%



US Park Police deploy tear gas on protesters near the White House, as pictured in Businessinsider.com. Photo credit Roberto Schmidt/Getty Images

**7. Social unrest** Over the last couple of months, social unrest has increased significantly. Judged from amongst my own community in Harlem, New York, this is part driven by the dramatic increase in financial stress that many people now face due to the recession, and partly driven by the culmination of many, many years of disadvantage for black and Hispanic communities. Several cities have seen significant protests initiated by the Black Lives Matter movement, and there have also been plenty of demonstrations by supporters of the current administration too. Though both of these have mostly been peaceful, it also seems clear that there are numerous forces at work who are actively encouraging an escalation in violence. After seventy years of fighting enemies overseas, today Americans are fighting each other on the streets. America's enemies are changing.

**8. Corporate risks** Life has become much more challenging for the corporate sector too. As one recent example, the US tyre manufacturer Goodyear has a corporate policy that banned staff from wearing clothing associated with political campaigns, whilst continuing to permit self-expression related to matters such as racial justice and equity issues. The President's response was to attack the company, urging the public not to buy its products. On the other side of the ledger, various members of the administration have actively promoted a range of companies, a clear breach of Standards of Ethical Conduct for Employees of the Executive Branch set out by the United States Office of Government Ethics. The corporate rules are changing.

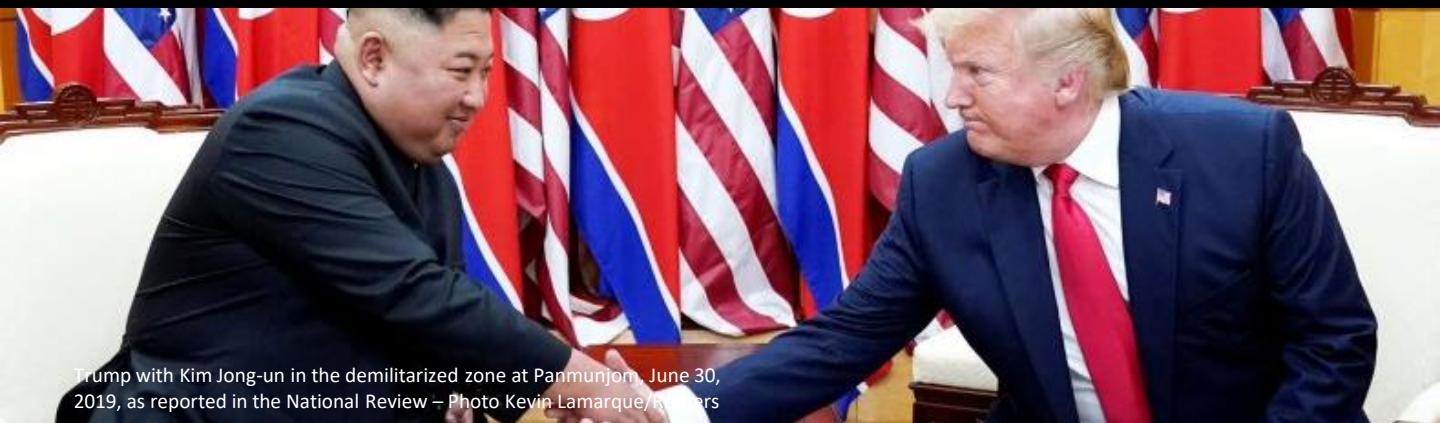
**9. Voting** The 2020 election will take place amidst the worst pandemic America has ever experienced. With nearly 200,000 dead, and the COVID-19 crisis still raging out of control across much of the nation, health and safety is a real issue in this election. This adds to the long-standing challenges of boundary gerrymandering and voter suppression. Unlike some other countries, the United States does not have an

independent election commission to define constituency boundaries or to administer elections. Both are under the direct control of state and local governments, enabling political intervention. As a result of the COVID-19 outbreak, there has also been a significant focus on the risks of voter fraud associated with postal voting, though there is no evidence that there has been any material issue with this in previous elections. Nevertheless, the president has both suggested that voting by mail will encourage voter fraud and also encouraged his own supporters to vote by mail and attempt to vote in person. Be warned: the latter is a felony in all 50 states. For the first time, there's a growing sense that the current environment warrants the type of independent electoral oversight usually reserved for countries emerging from a dictatorship. The nature of elections is changing.

**10. The Federation** As with any federal nation, there has always been some level of tension between Federal Government and state governments. Back in 2017, US tax laws were changed so that taxpayers could not deduct more than a total of US\$10k of state and local taxes. The impact of this was particularly detrimental to residents of New York (especially New York City) and California – two of the engines of US growth for many decades, and both staunchly democrat in their politics. In 2020, the financial siege has turned into a physical war. On several occasions, the President has deployed Federal troops and other agents to cities where demonstrations were taking place, frequently against the express requests of city and/or state governors. Peaceful protestors have been tear-gassed by American soldiers. TV reporters have been directly shot at by those forces too.

These stories are not fake news – they've been streamed live on TV from the streets and even from immediately outside the White House. The nature of America's federation is changing.





Trump with Kim Jong-un in the demilitarized zone at Panmunjom, June 30, 2019, as reported in the National Review – Photo Kevin Lamarque/Reuters

**11. Foreign Policy** When I first visited America back in 1986, the bond with Europe was as strong as ever. Though the cold war had ended, the Berlin Wall still stood, Chinese exports to the USA were negligible, and the USSR was still seen as a huge threat to US interests. Thirty years later, as Obama's second term came to an end, China had become a key trading partner for the US, but countries such as Russia and North Korea were still regarded as hostile to American interests. Under the current administration, much has changed, with the American president regularly meeting entirely in private with Russia's leader Vladimir Putin, and falling in love with Kim Jong Un.

*"And then we fell in love. No really. He wrote me beautiful letters... They were great letters. And then we fell in love."*

These are both developments that would have been entirely unthinkable under any president since the Second World War.

The relationship with China has become fraught with complexity, in part as America seeks a culprit for the loss of industrial jobs (in reality mostly due to automation) and reacts to an increasingly aggressive Chinese regime. The ensuing trade war has created real pain in some parts of the USA, as China's response to US sanctions was carefully targeted both geographically and politically. Closer to home, the US President has also repeatedly attacked both Canada and Mexico – still both important local trading partners – and has repeatedly criticised the European Union, calling NATO "obsolete". In one way he may be right – there's no doubt that geopolitics is changing.

**12. The Office of the President** Despite the endless political wars that play out on Capital Hill, Americans have almost universally held the Office of the President – and the individual who occupies the Oval Office – in high regard. Those days are gone, perhaps forever, thanks to the extreme form of 'retail politics' that now fills social media with a relentless barrage of half-truths, schoolyard insults and downright lies. These tactics are, of course, not unique to America, nor is the near instantaneous exposure of any hypocrisy involved. The role of the White House is changing.

**So... Where to from here? The above may read as if I'm biased in favour of the politics of the left. The truth is I've seen great leadership and great thinking on both sides of the political divide around the world. And I've also seen that no party has a monopoly on either fools or common sense.**

My concern, ultimately, is for democracy itself. I yearn for public policy that drives improvement in the economic and social welfare of all citizens and recognises the significant environmental and social challenges that we all now face.

If not, as I explored with Prof Jorgen Randers in *The Future of Society* a couple of years ago, wealth polarisation will become yet more extreme, very likely leading to revolutionary change. Irrespective of whether the latter comes in the form of a popular uprising or the emergence of new dictators, the outcome will be terrible for almost everyone in society, including the large majority of those currently at the top of the system.

Graphic from *The Future of Society* – Randers/Lake 2018



Robotisation  
and AI



Growing  
inequality



Lower  
growth



Revolutionary  
change



Trump meetings Zuckerberg at the White House, 19<sup>th</sup> September 2019. Photo credit Facebook/Donald Trump

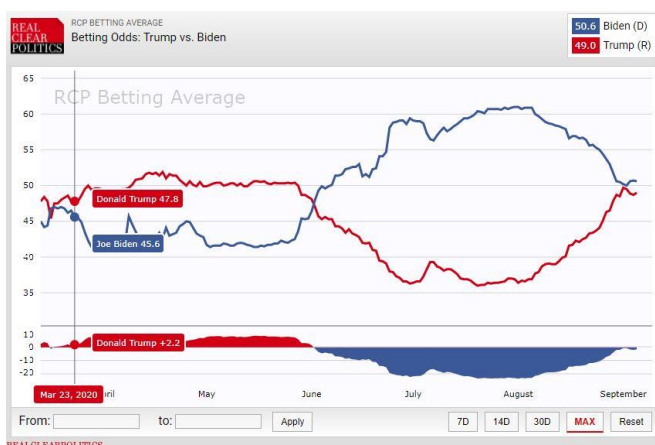
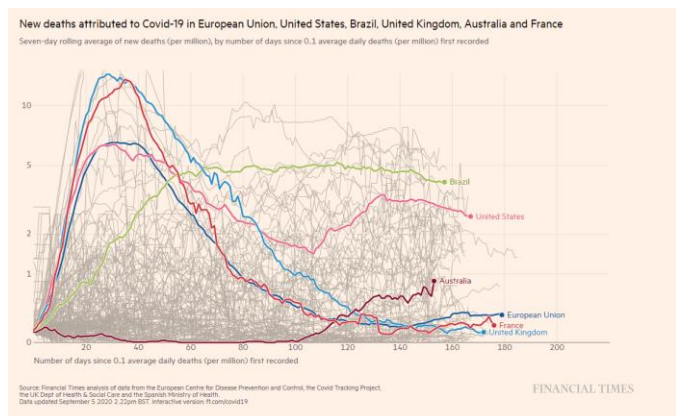
This analysis would not be complete without mentioning the dark forces that are clearly at work, both within and without America's borders. In George Orwell's 1984, the state was responsible for operating televisions and other media equipment that spied on citizens. In 2020, mass surveillance is conducted by the private sector (see for example *The Age of Surveillance Capitalism*, by Shoshana Zuboff). The traditional political hyperbole of partisan media stations has been amplified heavily in recent times, with companies such as Facebook enabling both political parties and clandestine organisations to manipulate the digital bubbles in which people live highly effectively. Indeed, the new rules proposed by Facebook to govern its involvement with the 2020 election seem perfectly designed for large, sophisticated advertisers (read media manipulators) and are heavily stacked against the individual. And organisations such as QAnon are gaining both greater visibility and greater political support, with its activities now actively endorsed by mainstream politicians.

The most important takeaway from all this is that you can't judge the likely outcome of the upcoming election simply by looking through the traditional set of lenses, though I will turn to these shortly.

As ever, betting markets provide a thoroughly useful guide. The Real Clear Politics betting average shows the two candidates level-pegging, after Biden's odds peaked at 61% at the end of July. This is a two-horse race, not just between the two candidates, but between 20th century American values and a new American order.

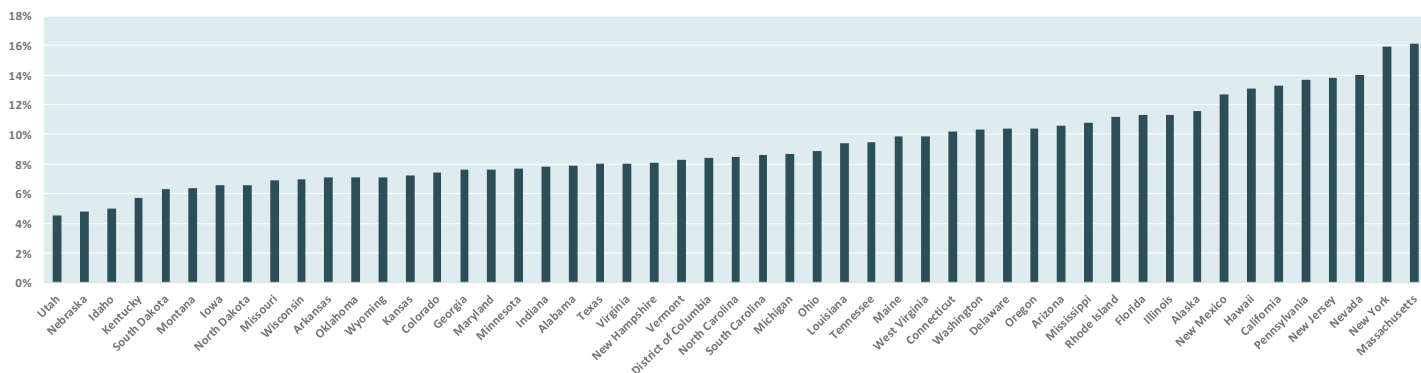
With that warning, let's turn to the data, both nationally and locally.

**First, America's response to the COVID-19 crisis has been terrible**, with a death rate far exceeding most other Western nations – with under 4% of the world's population, it accounts for over 21% of all deaths.



Within America, there are huge disparities in the effectiveness of the response to the current health crisis. After a terrible period early in the crisis, New York has made massive progress and continues to keep the outbreak more or less under control, and states such as Florida and Texas now have far more total cases. Recent electoral polls show Biden ahead in Florida, a key swing state, and even neck and neck in Texas, a state that has not supported a Democratic president since Jimmy Carter in 1976.

US Unemployment by state (July 2020)



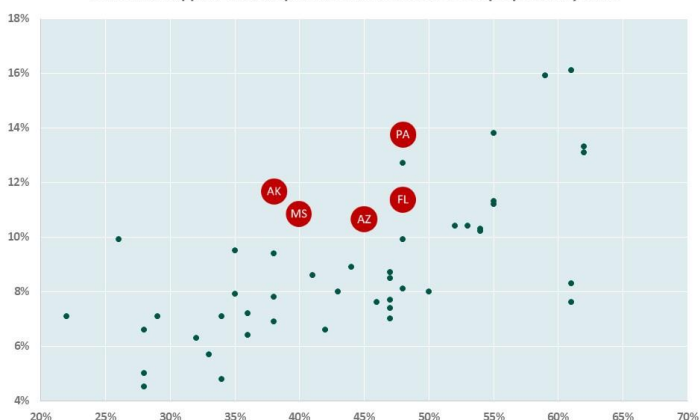
**Second, the US economy has been slammed by the hardest and fastest recession in a century or more.** Though unemployment appears to have peaked, and the economy is beginning to grow from April's low point, conditions remain tough. The economic contraction in the second quarter was 9.1%, a figure that will stick out on GDP growth charts for the rest of my working career. Figures for Europe were even worse, as 11.7%, and over 20% in the UK.

There are, however, huge variations in US unemployment by state, with just over 4% unemployment in Utah and Nebraska at one extreme, to around 16% in New York and Massachusetts.

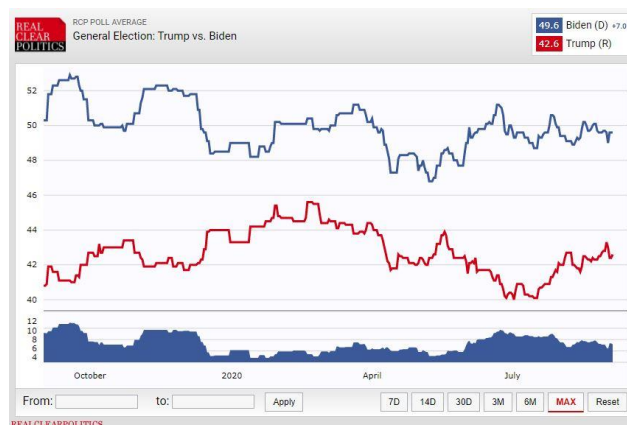
In the US as elsewhere, it's hard to win elections when the economy has crashed down around your ears and jobless claims have soared. Though employment is returning and weekly new jobless claims are now below 1 million, the figures are still four to five times the highest level seen in recent history.

Significantly, swing states won by the Republicans in 2016, such as Florida, Pennsylvania and Arizona have high unemployment and have the Democrats leading in the polls. Meanwhile in historically strong Republican states like Mississippi and Alaska where unemployment is also high, polls are showing materially less support than in 2016.

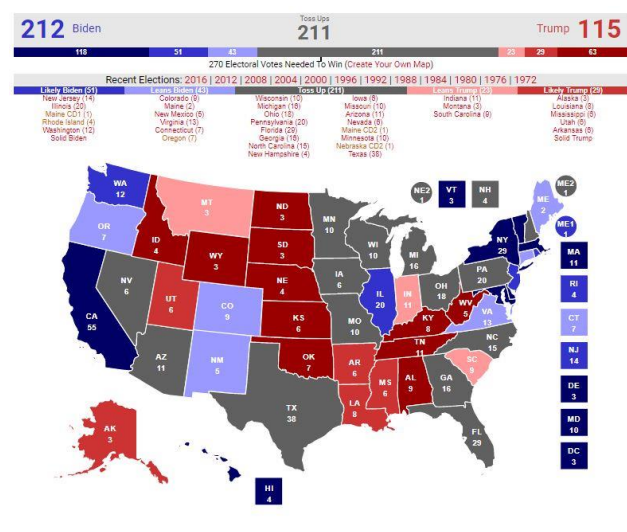
Democrat support at 2016 presidential election v unemployment by state



Consistent with all of this, various polls of polls put Biden solidly ahead in the popular vote.



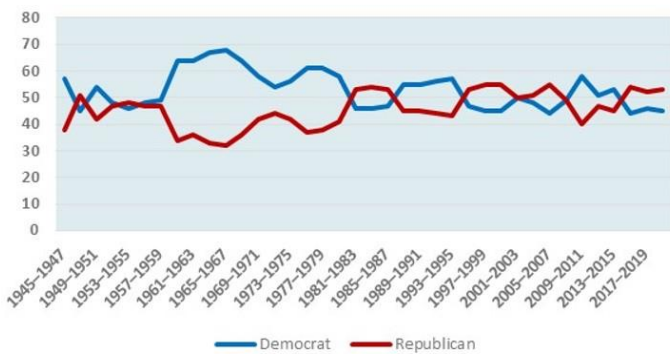
Though 'no toss-ups' estimates of the most likely outcome put Biden far ahead, state by state polls of voting intentions suggest the situation in the electoral college is more closely balanced, as illustrated below.



Winning the nomination for President is, of course, only one of the three races. To be able to implement its agenda purposefully, the winning party must also control the Senate and the House. Currently, Democrats have a clear majority in the House and seem likely to retain control at the election.



Composition of the US Senate



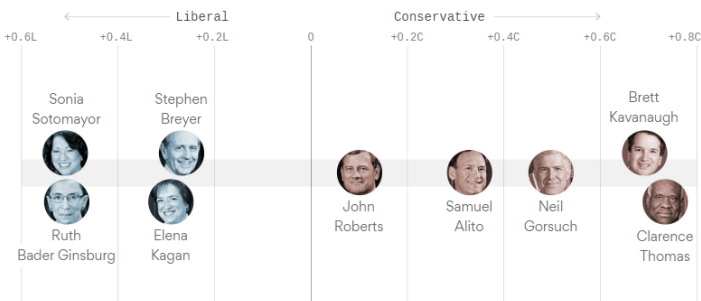
The Senate is much more finely balanced, with nine of the 35 seats being contested at this election balancing on a political knife’s edge. Seven of these are currently held by Republicans, and current forecasts suggests the Democrats may gain control, albeit by the slimmest of margins.

**Third, let me remind you of a bit of US political history** that most in America will know, but I suspect many overseas do not. The Democrats had uninterrupted control of the house for four decades, from 1955 through to 1995. During that period, they also held control of the Senate for all bar the six years from 1981 to 1987, the Reagan era. Thus, though there were more Republic presidents (Eisenhower, Nixon, Ford, Reagan and Bush) than Democrat presidents (Kennedy, Johnson, Carter and Clinton), the Republican’s control of the legislative agenda was relatively weak.

Control of the Senate is particularly important, as it has oversight of appointments to senior roles in the administration, as well as to the Supreme Court and a raft of other positions in the judiciary. The Supreme Court has been a particular focus. Recall that Obama was blocked from making an appointment for his entire last year in office, enabling the incoming Republican president to make two appointments during his current term (Neil Gorsuch and Brett Kavanaugh). This has shifted the political balance in favour of conservative politics, as illustrated by Axios’ assessment below.

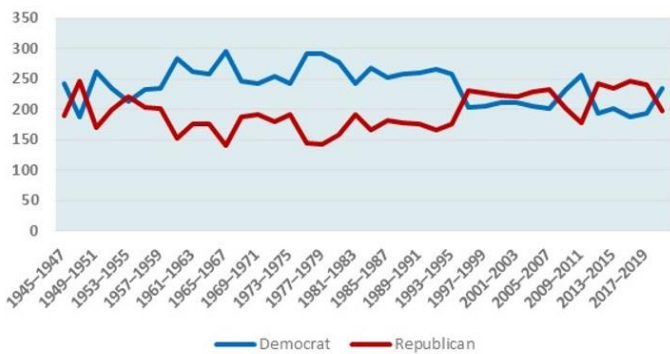
Judicial Common Space ideological scores

● Nominated by GOP president ● Nominated by Dem. president



Current justices: Epstein, Martin, and Quinn, 2017 “President-Elect Trump and his Possible Justices”, Kavanaugh’s score: Epstein, Martin, and Quinn, 2016 “Possible Presidents and their Possible Justices”; Chart: Andrew Witherspoon, Harry Stevens/Axios

Composition of the House of Representatives



One further critical appointment is looming, with Ruth Bader Ginsburg (now aged 87) having faced various health challenges in recent times.

Since Clinton came to office in 1993, a huge amount has changed. There have been two presidents from each party, but the Republicans have controlled both the House and the Senate for eight of the fourteen two-year parliamentary terms. Meanwhile, the Democrats have had control just once, during Obama’s first term.

Though nearly a sixth of the key executive roles in the current administration remain unfilled to this day (itself an unprecedented fact), appointments to the judiciary have proceeded apace. Roughly a quarter of all active federal judges have been appointed during the current presidency, including materially more appeals court judges than any president since Carter, as illustrated below.

Active federal judges appointed by each president as of July 7, 2020

	REPUBLICAN	DEMOCRAT
PRESIDENT	NUMBER OF ACTIVE JUDGES APPOINTED	SHARE OF ALL ACTIVE JUDGES
Donald Trump	194	24%
Barack Obama	312	39%
George W. Bush	166	21%
Bill Clinton	87	11%
George H.W. Bush	14	2%
Ronald Reagan	18	2%
Jimmy Carter	1	0%

Note: Excludes judges confirmed to certain specialized or territorial courts. One federal appeals court judge, Roger Gregory, received a recess appointment from Bill Clinton and was reappointed to the same position by George W. Bush. He is counted under Bush’s total only. Source: Pew Research Center analysis of Federal Judicial Center data.

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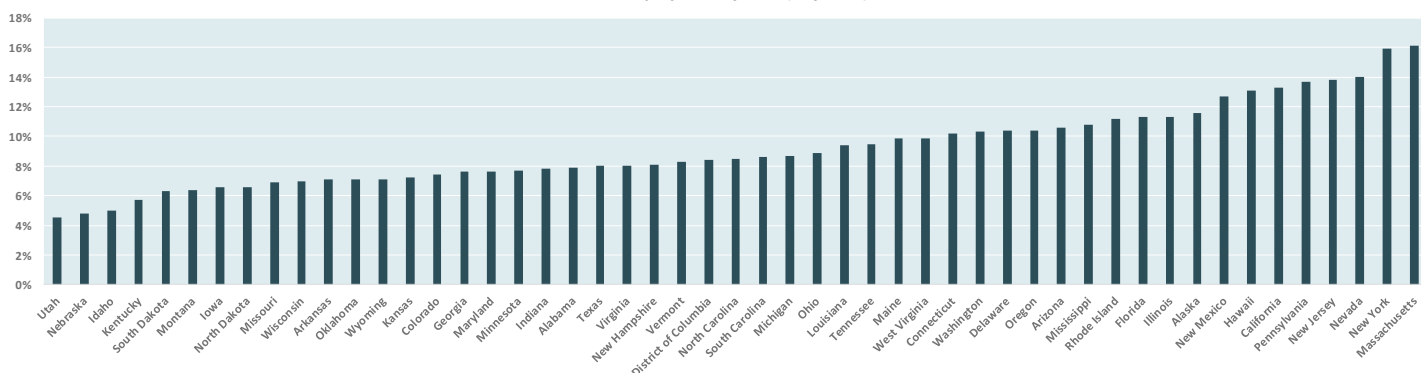
Federal judges confirmed by Senate through July 7 of each president’s fourth year in office

	Supreme Court justices	Appeals court judges	District court judges	Total
Donald Trump	53	143		194
Barack Obama	30	121		152
George W. Bush	35	162		197
Bill Clinton	30	152		184
George H.W. Bush	36	126		160
Ronald Reagan	27	117		144
Jimmy Carter	54	190		243

Note: Data as of July 7, 2020. Excludes judges confirmed to certain specialized or territorial courts. Judges confirmed to multiple positions, such as those first appointed to a district court and later elevated to an appeals court, are counted separately for each position, but only once in each president’s total. Source: Pew Research Center analysis of Federal Judicial Center data.

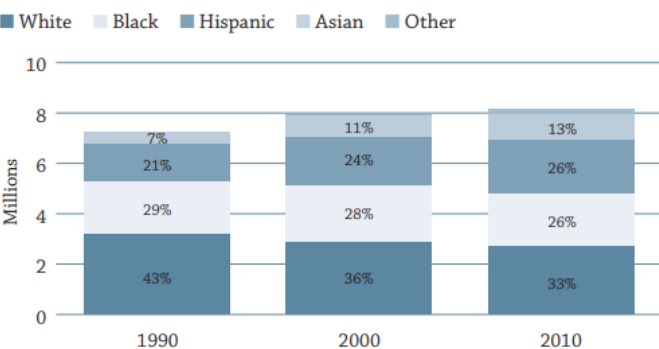
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US Unemployment by state (July 2020)



**Fourth, as you reflect on the underlying causes of these shifts, one deeper factor to consider is the racial demographics of the USA.** Over the last fifty years, minority groups (typically classified as black, Asian or Hispanic) have increased from about 16% of the population to around a third of the population, with non-Hispanic whites declining to around 60% of the population. Again, there are vast differences by city and state – New York City is not far from being evenly balanced between white, black, Hispanic and Asian citizens, as illustrated below.

Figure A: New York City Racial/Ethnic Groups: Levels and Shares



Source: U.S. Census Bureau, Decennial Census (1990, 2000, and 2010).

In the upcoming election, racial issues will likely be profoundly influential for both campaigns. Indeed, one reason why Biden was the preferred candidate of the Democrat mainstream is his strong support in the black community, not least due to his effective support of America's first black president.

**As should now be abundantly clear, these are unprecedented times in modern American history.** Both sides of politics believe that they have everything to play for in this election, which has already proven to be the most bitter and divisive in US history. The outcome is impossible to predict, not least as traditional electoral metrics and historical precedent may no longer be relevant. As a case in point, no candidate has ever come from this far behind in the

polls at this point in a campaign to win a presidential election. Yet the election odds have narrowed to almost exactly 50:50.

**Every company, investor and government must consider whether these risks are being properly factored into decision-making.** From where I sit, it seems clear that both the nature and extent of political and economic risks swirling around America are massively understated.

**These risks are further magnified by the diminishing emphasis placed on science, reason and objective analysis in many quarters.** So, let us all not forget for a moment that economic progress and social development is not a given.

After the golden age of human discovery and innovation that powered the Greek and Roman empires, swathes of Europe sunk into the Dark Ages for five centuries, between roughly 500AD and 1000AD. Many discoveries were lost – and not recovered until the renaissance. Sound bite policy and retail politics may be a tempting option in the face of gotcha journalism and click-bait websites, but these are all destructive forces that deserve to be hounded out of any thinking democracy.

**As the title of one of my favourite childhood books put it, The Dark Is Rising. Only bold, thoughtful and well-informed leaders can let the light back in.**

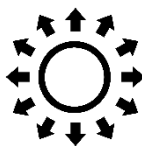
## Consulting | Investment Banking | Implementation



Strategy and  
public policy



M&A, JVs and  
investments



Innovation and  
digitalisation



Risk and data  
analytics



People and  
leadership