The post-crisis shift is under way. What took so long?

By Eric Lascelles
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It's surprising, really, that the transformation has taken this long.

When the global financial crisis hit in 2008, the air was thick with expectations of a sudden pivot away from the centrist policies that had long governed the developed world.

The underlying logic seemed sound. The flaws of modern capitalism were suddenly revealed, prompting the worst global recession in decades. Not only was unemployment skittering upwards, but the median worker was suffering from decades of wage stagnation.

But the political shift simply didn't happen, at least initially. To be sure, few incumbents survived their next trip to the ballot box, but they were mostly replaced with fellow moderates.

No shortage of protest movements sprang up, but they largely failed to influence public policy, let alone gain control over the proceedings. Even in the smattering of countries that bucked this trend and opted for something other than the usual centrist fare, the immense challenges of the post-crisis era kept the new firebrands from doing much more than delivering the same fiscal austerity and IMF-approved structural reforms as everyone else.

How fascinating, then, that lo these many years later, the political revolution may finally be unfolding. A combination of polls, election results, referendums and policy actions make the case that something new is now brewing. European elections are increasingly swinging toward politicians who sit outside of the comfortable middle of the spectrum. The U.S. presidential race is demonstrating the sudden viability of a surprising mix of far-left, far-right and outright populist policy views.

On the surface, the timing is puzzling. Haven't regulators, policymakers and financial institutions now largely patched over the economic system's most egregious vulnerabilities? Haven't financial markets rebounded, unemployment rates fallen and economic growth returned?

All of this is true, but clearly outmatched by several other considerations. First is the impression that economic activity remains underwhelming. In fairness, much of this relates to long-standing demographic forces, but some does reflect the lingering effects of the financial crisis.

Second, inequality continues to rise, whether measured as the income gap between rich and poor, the fading prospect of progressing beyond one's initial station in life, or soaring corporate profit margins. Moreover, it seems unlikely that these distributional trends will reverse of their own volition, linked as they are to persistent forces such as the ascent of developing nations, technology and an increasingly winner-take-all economy.

Third, attitudes toward the rich and powerful have curdled. This is in part given their seemingly gravity-defying prospects, and in part given the growing impression – aided by a slew of leaks – that the deck is stacked against the common person due to a mix of tax loopholes and corporate lobbying.

Fourth, a degree of isolationism and even xenophobia has crept into the policy mix – an understandable if knee-jerk response to a series of unsuccessful military ventures, rising terrorism fears and surging refugee claims.

Fifth, with the worst of the financial crisis conceivably behind them, politicians have suddenly found themselves with the bandwidth to do more than just implement emergency policies.

The confluence of these developments is starting to have an effect. The main result seems to be a shift in the focus of economic policy away from simple growth maximization and toward the nuance of how to better distribute that growth. As a result, previously unchallenged assumptions about the merits of free trade and open immigration, the dangers of a high minimum wage, and the advantage of keeping taxes low on the rich and on corporations are now being reconsidered.

Examples abound. All of the leading Democrat and Republican candidates for the U.S. presidential race now oppose the massive Trans-Pacific Partnership trade deal. Europe's long-standing Schengen Agreement of free transit across borders is now under considerable stress, and the U.K. will vote this summer on leaving the European Union outright. Minimum wages are rising rapidly in many developed nations, and increasingly in key U.S. states. Both the Canadian and U.S. top tax bracket have now gone higher, and corporate tax loopholes are being clamped down on.

Is this bad news or good news? It depends on your perspective. Less free trade, less immigration, higher minimum wages and higher taxes on the rich and corporate class will probably – on the aggregate – shave a little bit off the sustainable rate of economic growth and add an upward pressure to inflation. Until the dust has settled around such policy changes, businesses are liable to sit on their hands. These do not seem like good outcomes in isolation, and they are indisputably negative for investors.

But this isn't the entire story. It is some consolation that the economic hit may be a bit smaller than commonly imagined. A growing body of research acknowledges that free trade is not an unadulterated positive – for all of its pluses, it also reduces stability and squeezes less-educated workers.

Similarly, while rising minimum wages will cost some low-skilled workers their jobs and are ultimately funded by higher prices for everyone else, they seem less growth-inhibiting and job-destroying than once thought, especially given how far productivity and prices have outpaced wages over the years. Finally, higher top tax rates are a drag, but most remain well short of the theoretical threshold at which a significant brain drain or tax avoidance occurs.

And of course, this new policy direction is quite positive from a distributional perspective. The poor can expect to fare better, if at the slight expense of the rich. This shifted focus has a silver lining even among those seeking simply to maximize economic growth, as a high level of inequality can itself impede growth.

Whether this transformation lasts one election cycle or endures for decades remains to be seen. At a minimum, we must acknowledge the shift, seek to understand it better, and recognize that it is at least as consequential – if far less discussed – than the constant bustle of the world's central banks.

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