Roughly four decades ago, America kicked off the developed world’s last major economic paradigm shift — the supply side revolution.

Capital gains taxes were slashed. President Ronald Reagan and UK prime minister Margaret Thatcher took on air traffic controllers and coal miners. The power of unions faded and that of corporations grew. Some people got very rich. But inequality rose, and eventually, overall trend growth slowed.

Watching the Democratic presidential primary debates last week, I couldn’t help but think that we may be witnessing the next great shift, from an era of wealth accumulation to one of wealth distribution. Moderates like Joe Biden and John Delaney tried to argue for middle of the road answers on issues like healthcare and trade.

But the pole positions were set by Bernie Sanders and Elizabeth Warren, who hold similar views on everything from shifting Americans on to a national healthcare system and relief for indebted students. Both also seek higher taxes for the wealthy and tougher rules for corporations.
While little of this would seem radical in many other parts of the world, in the context of US politics, it was truly something new. The set point for economic debates, even for Democrats, used to be how the government could help the markets work better. Now it’s how the public sector can rein them in, and slicing the economic pie more fairly.

What’s more, it’s not only Democrats. Some Republicans are looking for a paradigm shift as well. Marco Rubio, an influential Republican senator who hopes to be president someday, recently put out a paper on the problems with shareholder capitalism and the merits of industrial policy.

The signs of this new post-supply side era are all around us. Witness the rise of the B-corporations, which balance purpose and profit, and the growth of investing based on environmental, social and governance factors.

In government, note the growing bipartisan enthusiasm for tougher antitrust scrutiny and calls for trade protection, as well as efforts to politicise the US Federal Reserve. It’s not just President Donald Trump’s tweet seeking rate cuts but also progressive Democrats who see “modern monetary policy” as a way to pay for their priorities without having to fund them through tax rises agreed upon by Congress.

These views are increasingly part of the mainstream. Last week, two senators introduced a bipartisan bill that would force the Fed to devalue the dollar in order to boost exports and balance current accounts with China.

This isn’t passing populism, but something much bigger, argues Kiril Sokoloff, founder of 13D Global Strategy & Research, who has been ahead on recognising previous turning points, from supply side economics and the slowing inflation that began in the early 1980s, to the rise of China and the spread of smartphones. “What we’re about to see is a backlash against the second gilded era, and it will have a massive impact on the world — and the markets.”

One likely impact will be fundamental changes in who holds wealth. The Democratic race reflects the growing conflict between two primary US voting groups — the baby boomers, represented by candidates like Mr Biden, and the millennials, who backed Mr Sanders in 2016, and now like him and younger candidates such as Pete Buttigieg. A decade of loose monetary policy has benefited the former, who have seen their assets appreciate, at the expense of the latter, who cannot afford to get on the housing ladder.

One of the big political battles will be over who gets what share of what looks to be a slower growing pie in what appears to be a slower growth economy.

Another battle will be between capital and labour. Rising wages are taking a bite out of US corporate profit margins and, frankly, they should. When consumer spending makes up 70 per cent of the economy, we need a bit of wage inflation to ensure that people have money to spend. That’s
particularly true at a time when governments aren’t investing, and the shift from a tangible to an intangible economy has led to decreased private sector capital expenditure.

But it has taken trillions of dollars in unconventional monetary policy to cook up relatively small wage increases. And for many Americans the gains are immediately eaten up by increases in healthcare premiums or prescription drug prices, two other hot topics on the campaign trail. That’s one of the reasons there’s now broad support for higher taxes on the wealthiest.

It remains to be seen when and what form tax rises will take. But the age of wealth distribution is coming and will have major investment consequences. The value of US equities has probably peaked, and hard assets like gold, other commodities, housing, even art — anything in fixed supply — may benefit relative to the equity and debt of multinational companies.

This isn’t the end of the world — we’ve been going through cycles of wealth accumulation and distribution forever. But it does mean that the rules of the road for investors are changing. Some asset prices may fall, but it’s possible income growth will be higher. That would come with an upside of its own, economically and politically.

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Letter in response to this column:

Tax cut for rich reflects the world we live in / From Dan Wharton

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