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## Politics in Focus: The Case for Optimism

A political scientist weighs the potential for real progress out of Washington, DC, across a range of important issues.

Over a year into the global pandemic, the U.S. faces serious challenges, including defeating the virus, restoring the economy, addressing widening inequality and uniting a deeply divided country. We reached out to Sam Potolicchio, a noted political scientist, for his views on the political landscape and the likelihood of constructive action in a pessimistic age. He responded as follows:

On January 13, 2020, a team at Moderna and the National Institutes of Health created a test vaccine for COVID-19—just three days after scientists had posted the genome of the disease. The previous world record for producing a vaccine was four years. Later, vaccines were approved for emergency use just 11 months after the novel virus was first detected.

Yes, scientific discovery progressively improves as we accumulate knowledge, but this smashing of the world record underlines the promise of inventiveness, especially when sparked by constraint and adversity. The pandemic has stolen millions of lives, wreaked economic havoc for billions and contributed to gnawing uncertainty that will likely stay with us for a while. Ultimately, however, I believe that the history books will see this as a harvest time—one that ushers in breathtaking digital innovations that could modernize and streamline health care, retail, government services, education and infrastructure. With historic levels of corporate cash and household savings, coupled with monetary policy incentives, I believe there will be many eureka moments that help engineer a period of widespread prosperity.

A portion of the country may oppose the Biden administration's policies and proposals, but Biden's biggest campaign weakness, his status as a 47-year veteran of national politics and a traditional establishment figure, could provide much-needed predictability for society and business to move forward. There may be modest tax hikes and regulations (although likely no radical tax hikes or seismic corporate breakups) in the next couple of years; however, personnel retreats (Biden's top appointments are collectively the most experienced in modern history) could free up mental bandwidth for creators to create and builders to build.

It is no accident that the stock market had its best inauguration-day returns<sup>1</sup> since President Reagan's second inauguration in 1985. The sunny 40th president famously remarked that government was not a solution, but the problem. While the Biden administration intends to strengthen government's scope, other parallels are evident. In particular, I believe Biden represents a return to normal squabbles and buttoned-up governance, and his maiden speech was draped in a call for unity. A familiar playing field could incentivize corporate leaders to elongate their time horizons, and favor innovation investments.

There are surely ominous clouds in our sightline: geopolitical tensions, the threat of domestic terrorism, the potential for mutating COVID-19 strains, and many other issues. Moreover, the political landscape is on a razor's edge, given the reality that the resignation or death of one officeholder could remove its balance and change the calculus around the filibuster.

In my view, however, the circumstances and political landscape favor confidence. Here's why: I believe history will judge the Biden administration most by how it handles the pandemic and the economic repercussions, so the first 100 days are focusing squarely on containing and then controlling the virus. We already have seen the alacrity of the Biden response, not just with outsized relief packages and federal spending programs for the states, but also with a focus on cracking down hard on the spread, from mandatory mask policies, to travel restrictions, to moving rapidly on vaccine distribution.

I believe that, by April 30 (day 100 of the Biden term), the U.S. could make substantial progress toward herd immunity, with the potential for 100 million or more Americans to receive a "double jab" and, potentially, a majority of schools reopening for in-person instruction. Support for COVID-19 vaccinations could increase as the Biden administration partners with influencer endorsers and provides data-backed behavioral incentives to decrease vaccination skepticism. A laser-like focus on the pandemic and the energetic use of executive orders and policy speeches on issues where Americans are not divided could jam a year's worth of accomplishments in the first 100 days.

## **Moderation in the Driver's Seat**

In my view, the tenuous political architecture might, surprisingly, be the biggest boon for the economy. Most presidential terms start with a productive bang, and while Biden's initial approval rating dwarfs Trump's by 10% at the same point in the latter's presidency, he is unlikely to enjoy the same honeymoon grace period of previous presidents.

Many rank-and-file Republicans question the legitimacy of the president's election win. Complicating Biden's hand is that he has the second-smallest Senate margin for an incoming Democratic president (Grover Cleveland had a Republican Senate) and the smallest House margin in history (+9). In 1993, Bill Clinton was +14 in the Senate and +82 in the House, while in 2009 Barack Obama was +16 in the Senate and +79 in the House. In my opinion, the Democrats would need something major to disturb historical trends, as only George W. Bush has gained seats in a modern midterm. Trump (-40), Obama (-63), Clinton (-54) and George H.W. Bush (-9) all lost more seats in their first midterm than the current Democratic advantage. While the Senate may yield better prospects for retention, past Senate midterms suggest that there is a 60% chance of the Democrats losing seats, when just the loss of a single seat flips the Majority Leader title back to Mitch McConnell.

So, how could the slimmest of margins encourage economic growth? Because the most influential players in Congress are likely to be moderate Senators—a group closely aligned with the median voter and allergic to radical movements. Democratic Senator Joe Manchin of West Virginia is a newly crowned policy kingmaker. The erstwhile governor of West Virginia used to win statewide elections by 30%, but he only squeaked by in 2018 with a 3% advantage in a state Trump won by almost 40%. Manchin wields a de facto legislative veto, which should eliminate any chance for Supreme Court additions, major reductions in internet platform immunity,

<sup>1</sup> Source: Dow Jones Market Data, based on performance of the Dow Jones Industrial Average and S&P 500.

or statehood for the District of Columbia and Puerto Rico. And even if a disaffected Republican breaks rank, Democrat Jon Tester, up for reelection in 2024, represents a solidly Trump state (+16.3%) and will probably never cotton to a fast-moving Senate.

Many people probably find our political sectarianism to be discouraging (about a fifth of each major party think members of the other party are "evil"), but business-friendly incremental moderates are likely to do the governance, not a fire-breathing or unpredictable bunch. So, you may see the repeal of the Trump tax cuts or a return of corporate rates to Obama-era levels, but I doubt you will see a wealth tax or rates that exceed the last two Democratic administrations. You may also see the restoration of network neutrality, but you will probably not see the breakup of big tech corporations.

## **A Pivotal Moment**

At the same time, we are at a pivotal, possibly teetering moment in American history. The scholar Jack Goldstone has built a model that predicts political turbulence. His data suggests that upheaval occurs when (1) elites gain a disproportionate share of economic growth, (2) economic mobility declines and (3) tax policies allow the wealthy to keep their gains, while public services are gutted. According to Goldstone, the U.S. is the most unequal of any of the G7 countries, by a solid margin. Goldstone's model, developed decades ago, eerily predicted the summer protests and the post-election insurrection. Public-spirited policymakers understand that the economic anxiety that many Americans feel is driving much of the disorder and populist fervor. Fiscal policy, robust relief programs and employment incentives will likely need to be generously designed and quickly implemented to cauterize these economic wounds.

Both parties appear to have the electoral motivation to act fast. In my view, the Biden administration has to deliver concrete economic results in the first two years or lose control of Congress. 64% of Americans want to see immediate pandemic relief. If the Republicans are associated with opposition to muscular economic reforms, losses in 2022 could usher in effective one-party rule, especially if the Democrats gain more than four seats in the Senate (something now more probable with swing-state moderate Republican Senators retiring). In that case, the filibuster could evaporate and a flood of permanent changes (from statehood additions to extra Supreme Court seats) would meet with little institutional resistance.

Already, the 2012 presidential Republican nominee, Senator Mitt Romney, has proposed that each family receive \$3,000 per child each year. On the surface, it may be shocking that this prescription came from a former Republican standard bearer. However, the Biden administration is already acting decisively through executive action on a raft of popular items, and has already passed its \$1.9 trillion dollar spending plan through reconciliation, obviating the need for any Republican support. Romney's big offering in my view signals that outsized initiatives are not going to flow just from Democrats, even if Democrats have a concerted perceptual advantage on handling the pandemic and its aftermath. Biden's approval rating overall hovers around 50%, but he has 61% approval versus 29% disapproval on the pandemic specifically.

## **Channeling FDR**

At a high level, Biden appears likely to fashion himself as an FDR on the domestic front, with a war-like approach to a common invisible enemy and massive spending geared toward infrastructure, jobs and green energy. But his foreign policy background might also bring comfort to market watchers. Biden may naturally prefer the global statesman role of his portfolio, and he may feel special pressure to reassemble multilateral alliances and attachments, making sure the post-World War II global institutional architecture remains intact. With multilateralism back in vogue and the transactional nature of President Trump's whimsical personality-driven foreign policy receding, the severe headwinds on international trade and tariffs could lessen.

Not only does Biden have more years of international politics under his belt than any U.S. president in history (by a significant margin), but his cabinet brings a similar seasoning. From State, to Defense to Treasury, Biden is surrounded by centrist gravitas. It's no surprise that the top three posts (Blinken, Austin, Yellen) glided through confirmation hearings, not just because of gilded credentials, but because these individuals are likely respected by the Republican establishment. Even the youngest and most inexperienced cabinet secretary, Pete Buttigieg (Transportation), should be granted a degree of deference. A leading Presidential candidate just a year ago, his political aspirations could mean that transportation and infrastructure projects will likely have a particularly high profile.

And while the Biden cabinet will aggressively execute policy, it will likely also be in step with the median American voter. The most influential figures in the Biden administration are moderates with high-level corporate, multinational experience. Yet, the fact that Biden's is the most historic cabinet (with more "firsts" than its antecedents) could also provide insulation from left-wing criticism. Biden's governing apparatus has the grudging respect of the Republican Senate cloakroom, as well as the multinational corporate boardroom, which could permit more restful nights for the public, and potentially, investors.

Finally, Biden himself adores the Senate and has 36 years of legislative experience in the chamber. He was cudgeled during the election as an institutionalist, but this campaign peccadillo is an asset now. In 2012, Biden was the chief negotiator in a tax deal with Mitch McConnell. The Democrats got what they really wanted, but McConnell was ebullient, noting that 99% of the Bush tax cuts remained in place. While McConnell has the unenviable task of trying to prevent intraparty fratricide driven by the right, he would probably rather work with Mitt Romney than Ted Cruz. He will be 84 the next time his seat is up, so, do not be surprised if he views his lasting legacy as incrementally erasing the Trump wing from the corridors of his beloved Senate.

### **Final Thoughts and Predictions**

I believe the Biden administration could spearhead federal spigots similar to FDR and LBJ. While the more progressive wing of Democratic Party may argue for reforms on carried interest, wealth and corporate taxes, and elevated personal income rates, Biden will likely be much more concerned about jumpstarting the economy. Tax reform will likely arrive only if the economy starts to purr and the Democrats can campaign on a strong economic recovery for the 2022 elections.

Look for the Biden administration to potentially position itself as a shepherd of innovation, supporting quantum leaps in moonshot advances in genomics, alternative intelligence, robotics, 5G and space—especially as a tool in geopolitical competition. While the president has not been vocal about breaking up big tech, some early appointments started chatter that his administration might be more aggressive in regulating big tech through antitrust. However, big tech is both a source of economic strength and soft power on the global stage. So, not only is breaking up big tech not likely to be a key priority, the administration will likely be cautious about slamming the breaks.

Dr. Sam Potolicchio was named one of "America's Best Professors" by the *Princeton Review*, the Future Leader of American Higher Education by the Association of Colleges and Universities, and winner of the OZY Educator Award as one of six outstanding American educators. He was also profiled in a cover story on his leadership curriculum by *Newsweek Japan* as the "Best Professor in America". Potolicchio is President of the Preparing Global Leaders Forum and Distinguished University Professor, Department Chairman and Vice-Dean of the Faculty of Political Science at the Russian Presidential Academy of National Economy and Public Administration. He also teaches in programs at Georgetown University, Mannheim Business School (Germany) and the University of Bologna (Italy).

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