

2021: The K-Shaped Recovery Meets ‘The Lady or The Tiger’

BY PETER W. ATWATER

IF YOU HAVE HEARD about the K-Shaped Recovery, it is likely my fault. I began using the term last spring with my clients and wrote an op-ed on the topic for the *Financial Times* in June 2020, when other economists were still promising a V-Shaped Recovery.

While I am an economist and the K-Shaped term has been used by many other economists to characterize the bifurcated nature of the economic recovery since the spring COVID-19 panic, my focus wasn't the economy at all. It was consumer confidence.

As professionals migrated from office buildings to their home offices and the financial markets roared higher, I saw the confidence of one group of Americans rebound sharply. Meanwhile, for individuals working in the hotel, restaurant, and entertainment industry, conditions continued to deteriorate. Their lives were upended by the outbreak.

Put simply, today in America there is an enormous and unsustainable confidence divide. We are a nation of confidence haves and have nots. We are the invincible and the defeated.

While many pin their hopes on the 2021 economy on a COVID-19 vaccine, the far bigger issue for the upcoming year is how the K-Shaped Recovery resolves. Does the economy continue to recover more fully – and importantly, inclusively – or does it roll over? Does confidence rebound for those at the bottom, or do conditions deteriorate further, jeopardizing far more than the U.S. economy ahead?

Why confidence matters so much at this current juncture is that what happens to it – whether it rises or falls from here – will drive how we act ahead.

With rebounding confidence, America will re-engage with the global community. Trade will increase and, as a nation, we will become more generous – financially and socially. We will also be more innovative. With rising confidence comes greater risk-taking and a willingness, if not outright eagerness, to tackle the unknown. At its core, confidence is cognitive and when we feel good, we are capable of extraordinary abstract thinking. We are more creative.



While it may feel like it was published just last month, this cartoon dates from 2010. Imagine if Adam Zyglis, the cartoonist, were to redraw it today.

More than anything this is the scenario I wish for in the year ahead.

But we need to be realistic about what will happen should confidence fall and “me here now” thinking takes hold.

Politically, in Washington, there will be little chance for compromise. Short of a crisis, additional stimulus will remain unachievable. Those Americans without will remain without, with many spiraling into hopelessness.

Out of frustration with Federal paralysis, state and local leaders will take charge. Just as we have seen already with minimum wage and cannabis legalization, as well as the COVID-19 response, local leaders will drive the national agenda. Whether formally or informally, we will see states set their own courses ahead – Washington, and other states, be damned.

Economically, deteriorating confidence will take its toll on growth. Expectations of a slow-down will manifest in just that.

With that, some current trends are likely to accelerate. Big tech companies will face enormous regulatory and legal headwinds, as policymakers work to limit their power.

At the same time, globalism will be replaced more and more with nationalism, if not outright localism. Fearful of the mounting uncertainty, business leaders will scale back capital investment, innovation, and expansion. Divestitures and retrenchment will accelerate.

Alongside this will be an explosion of “just-in-case” business models too. Today’s asset-light, “just-in-time,” blitzscaled companies will be ridiculed for their fragility as the pendulum moves sharply away from this past economic cycle’s favorites. Fear and overpreparedness, rather than opportunity, will drive investment.

I would also not underestimate the violent pendulum swing that will occur with maximizing shareholder value. Viewed to have been over-enriched on the way up, stockholders and big company business leaders will be expected to now pay up. “Culling” employee ranks to pay corporate dividends, as November 2020’s Exxon lay-offs were characterized in the media, will be socially intolerable ahead as the crowd demands jobs, jobs, jobs!

Finally, I would not underestimate the social unrest. One of the least appreciated aspects of weak social mood is the zero-sum thinking it fosters. When we feel vulnerable, and see others succeeding, we believe they somehow gained at our expense.

Those at the bottom, today, are all too aware of the K-Shaped Recovery and where they fit in it. To them, the term doesn’t just characterize what has taken place during 2020, but since the end of the banking crisis.

If my concerns about what 2021 might seem alarmist, it is because our starting point heading into the new year is precarious. We have not yet recovered from the pandemic and, amid the outbreak, there have been two vastly different experience for Americans. A renewed confidence decline, coming at this moment would be devastating to those on the leg of the K-Shaped Recovery.

Should the economy soon falter, and hopelessness soar, the potential for intense and widespread anger is high. And with the confidence divide so extreme already, much of that anger will be aimed at those individuals and businesses at the top. 2021 could bring calls for revenge. And just in case you think this is some kind of masked political statement, it isn’t. The anger felt by those on the leg of the K-Shaped Recovery is bipartisan.

As business leaders plan for the upcoming year, they need to appreciate 2021’s “Lady or The Tiger” potential. Either the economic recovery continues and a rising tide now lifts all ships or it’s a Category 5 hurricane ahead. ■



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