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Biden's Economic Plan: A Paradigm Change in American Economic Policy?

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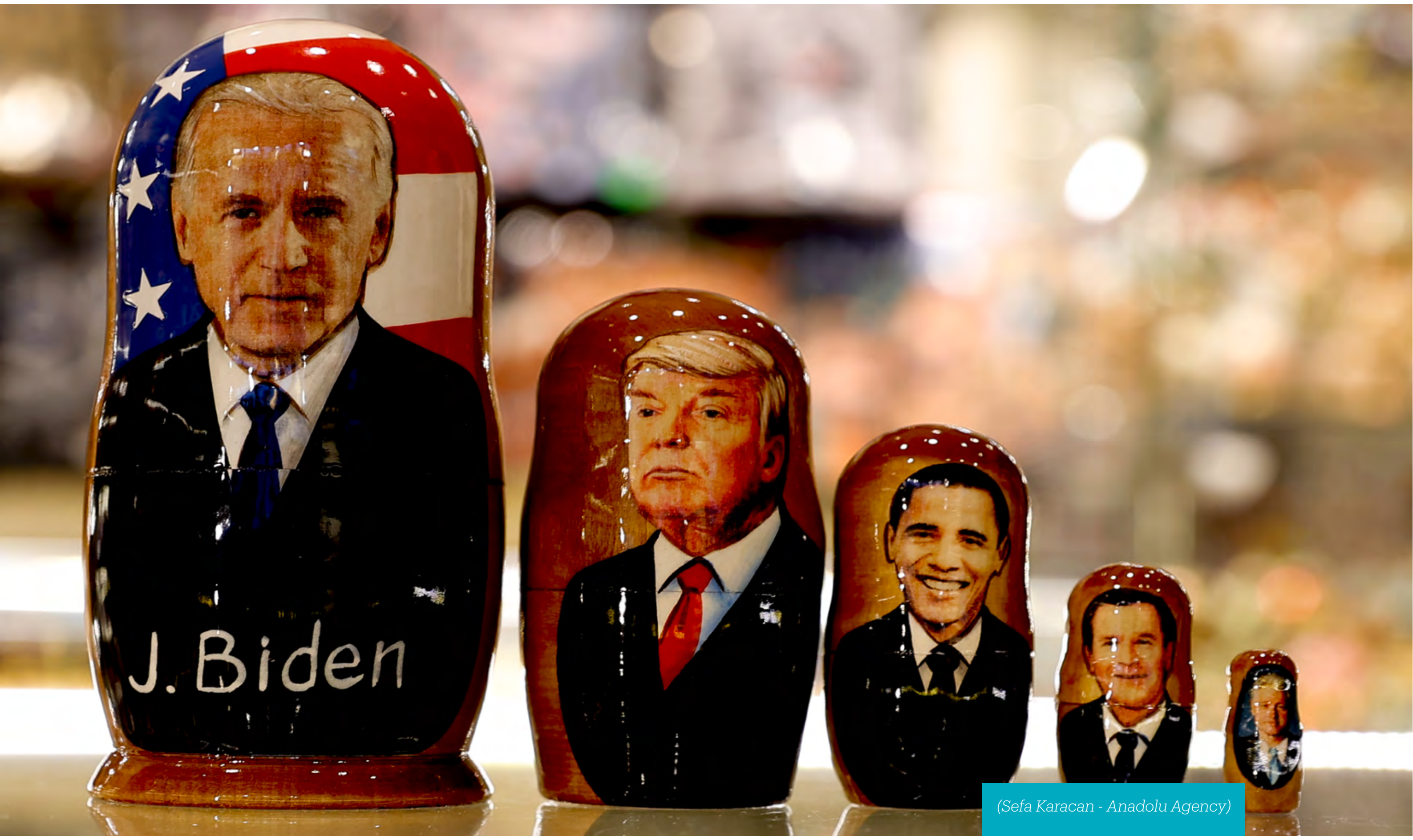


(Sefa Karacan - Anadolu Agency)

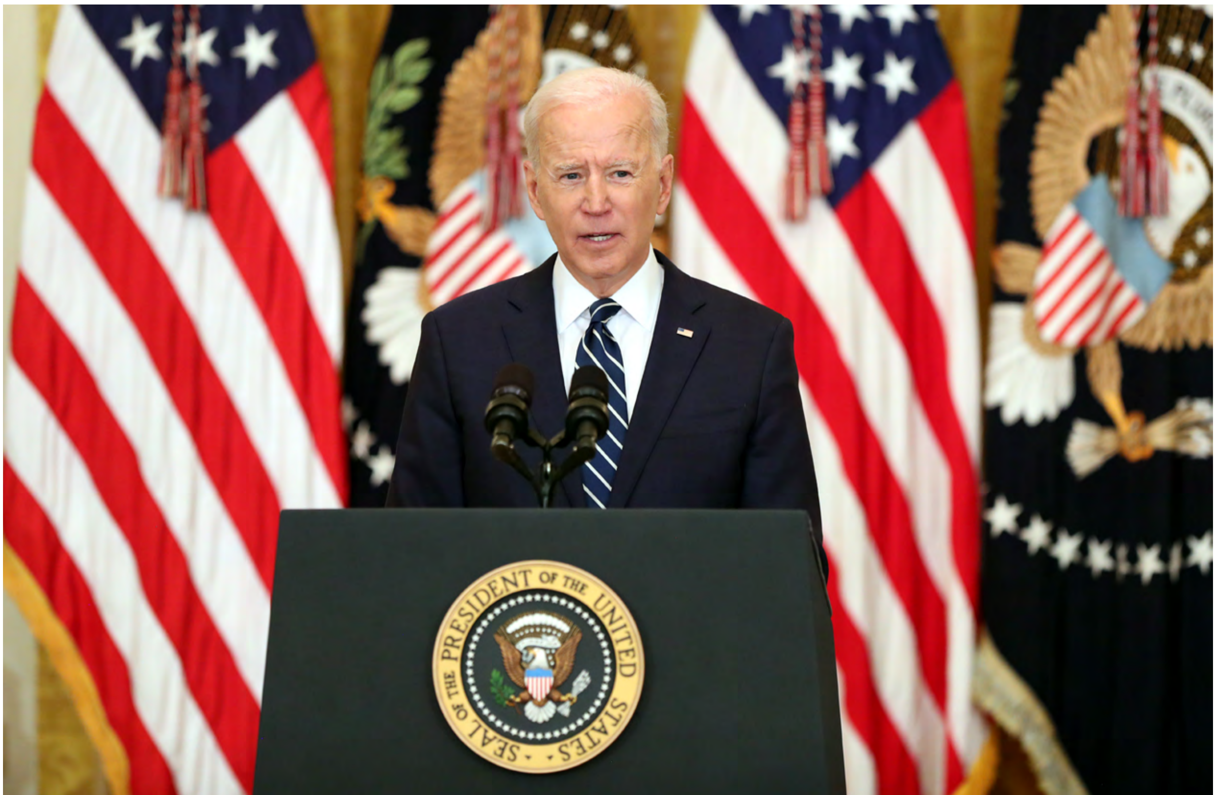
With Biden's election, the US appears to have entered a new phase in its political history. President Biden is promising a paradigm change in economic policymaking and a deep transformation of the American economy. The Biden administration wants the state to play an increased role in the economy with higher taxes on corporations, more spending on infrastructure and key industries, as well as better and more inclusive services. This new policy paradigm aims to create jobs for millions of Americans and put an end to the decades-long trend of rising inequality in the US. Moreover, it promises to more effectively combat climate change and increase American industrial competitiveness vis-à-vis China. However, American economy's long-standing problems may have deeper causes than government policies, namely globalisation and automation. With the Biden administration, the "defeatist view" that governments cannot counter the forces of automation and globalisation may be tested.

Introduction

During his Presidential campaign, Joe Biden was seen as the representative of the American political establishment within the Democratic Party as opposed to reformers like Bernie Sanders or Elizabeth Warren. He was supposed to take US politics back to the mainstream after four years of diversion under President Trump. Now, it appears that President Biden might be remembered quite differently in American political history. In his first 100-days, Biden is already pushing for some radical economic policies, which can rightly be called a total paradigm change in US policy. After forty years of neoliberalism, Biden's team seems to be aiming to shift American economic policy towards a new model where the government assumes more power and responsibility in the economy in order to improve economic growth and reduce inequality.

Since Ronald Reagan came to power in 1981, US economic policy has been primarily guided by a non-interventionist pro-market approach, most commonly referred to as neoliberalism. In this period, government regulations regarding the labour market and the financial sector have largely been dismantled while government investments (in infrastructure, housing, key industries etc.) and basic public services (education, healthcare etc.) gradually declined. Moreover, government policies to redistribute income and wealth have been weakened. The promise of this approach was that, as the government's role in the economy was reduced, a more efficient profit-driven private sector would take a larger role, leading to more dynamism and higher economic growth. However, especially since the 2008 global financial crisis, this approach has been increasingly questioned both in academia and policy circles for leading to high inequality and a rentier economy rather than more economic growth. Demands for change with more government intervention in labour markets, finance, and income distribution have risen in recent years. With Covid-19, the idea of having bigger governments with more influence and responsibility in the economy seems to have become mainstream.

Joe Biden came to power in this environment. But it was doubtful whether a mainstream political figure like Joe Biden, who has been at the centre of American politics for a long time, could meet these demands for radical change in policymaking. However, so far Biden has demonstrated that he is both willing and determined to transform American economic policy in a major way. He has recently passed a $1.9 trillion Covid-19 rescue package, which is unprecedented both in size and content, in order to better fight the economic and human impact of the Covid-19 pandemic. Now, the Biden administration is pushing for a more substantial spending programme. The $4 trillion spending package, called "Build Back Better", will target America's infrastructure in vast areas, public services (mostly in caregiving sectors including healthcare, childcare, care for elderly and disabled, etc.) for millions of Americans, and strategic industries such as renewable energy, electric vehicles, and semiconductors. At the same



(Oliver Contreras - EPA - Anadolu Agency)

time, Treasury Secretary Janet Yellen is calling for a major reform of the entire American tax structure, which imposes higher taxes on corporations, undoing previous tax cuts by Republican governments during the Reagan, Bush, and most recently, Trump administrations. Moreover, Biden also wants to increase unionisation in American industries and empower labour groups.

It is obvious at this point that Biden's policy stance goes beyond crisis management. His economic approach arguably marks a paradigm change in American policymaking. The Biden administration appears to be aiming for a restructuring of the American economy, which has the potential to not only create millions of jobs and reduce inequality for Americans but also more effectively combat climate change and increase American industrial competitiveness vis-à-vis China. After forty years of neoliberalism, American economic policymaking may be on the verge of shifting to a more interventionist model where the government has increased influence in the economy. However, there is no guarantee that the new model will solve the American economy's long-standing problems, which, as some would argue, may have deeper causes than government policies, namely globalisation and automation. With the Biden administration, the "defeatist view" that governments cannot counter the forces of automation and globalisation may be tested.

Four decades of neoliberalism

The last time the US went through a major paradigm change in economic policy was in the 1980s when President Reagan was in power. The political atmosphere was ripe for such a deep shift in policymaking after the economic turbulence of the 1970s with the oil crises and years of high inflation and low economic growth. President Reagan came to office in 1981 and initiated a reform programme with a radically pro-market approach, which, in contrast to the previously dominant Keynesian understanding, promoted a much-reduced role for the government in the economy. Unlike the Keynesian model, where government interventions are considered necessary to maintain stability and improve performance in an economy, the neoliberal approach Reagan followed was based on an understanding that government interventions are a drag on economic growth; public investments are often inefficient and wasteful, and high taxes, which are necessary to finance them, discourage economic activities by reducing profits and wages. According to neoliberal thinking, dismantling government interventions lead to a higher investment rate and higher productivity, which ultimately benefits everyone.

Less protection for workers' rights, lower taxes on corporations, lower tariffs for international trade, and less government spending on investments (e.g. infrastructure) and public services (e.g. education, healthcare) were key aspects of the neoliberal approach, which dominated American economic policy for decades and influenced economies beyond American borders. Margaret Thatcher, British Prime Minister between 1979 and 1990, was another key proponent of this approach. Under the influence of these two major countries, the transition to neoliberalism became a global phenomenon. International financial institutions such as the IMF, WTO, and World Bank were instrumental in this global trend as they promoted deregulation, free trade, and other pro-market policies (the so-called Washington Consensus) in the developing world. To differing degrees, governments all around the world adopted a minimalist approach towards the economy, leaving the wheel to the private sector.

However, contrary to its original promise, it is difficult to argue that the neoliberal approach led to better economic performance. Lower taxes on corporate income, for instance, meant less redistribution and thus higher profits in the hands of capitalists, however, this did not automatically translate into a higher investment rate. Instead, coupled with deregulation in finance, more resources are channelled towards unproductive activities such as speculation in stock markets or real estate instead of employment-generating investments. Moreover, deregulation in the labour market (i.e. dismantling policies which make firing workers difficult or allow collective bargaining and unionisation) meant less power for workers and translated into lower wage growth. Similarly, deregulation in trade (lower tariffs, free trade agreements, etc.) allowed American companies to relocate to other countries where labour is cheaper, especially East Asia, which left millions of American manufacturing workers unemployed.

Many have convincingly argued that the consequences of the neoliberal period, with its implications for wage growth, inequality, and financial security was a core reason why an unconventional political figure such as Donald Trump was elected president. Indeed, when looked at it from the wider perspective of long-term economic trends in the US, the Trump presidency appears less anomalous. Trump, with his rhetoric around bringing manufacturing jobs back to America, building better infrastructure across the country, or taking on the American elite, hit a nerve, reflecting a symptom of deep problems in the American economy. Arguably, Trump's election and recent popularity of other radical figures in American politics, including Bernie Sanders, Elizabeth Warren, or Alexandria Ocasio-Cortez, reflects a broad public discontent towards conventional policies and mainstream politicians. Increasingly, Americans are demanding change and are voting for politician who promise radical reform.

In fact, the trend of increasingly unconventional or radical politics can be observed in other major economies as well. The Yellow Vest Movement in France, Brexit in the UK, or increasing influence of right-wing politics across European

Chair of the US's Federal Reserve Janet Yellen speaks during a press conference following the Fed's interest rate announcement in Washington, DC, USA on December 14, 2016. (Samuel Corum - Anadolu Agency)

countries including Austria, Holland, Germany etc., show that there is a common trend: people want reform and are thus increasingly attracted to protest movements and radical politicians. This discontent with mainstream politics, especially since the 2008 financial crisis, has arguably been fuelled largely because of economic issues, more specifically problems created by a radically pro-market and non-interventionist economic paradigm, demonstrating the need for a paradigm change. It can be argued that with Covid-19, this demand for change has become even more salient. In order to meet this demand, politicians will need to take more control and responsibility for the economy rather than leaving things to the invisible hand of the market. This seems especially true in the US where the shadow of 'Trumpism' looms large over American politics.

Biden's Plan

The policies President Biden has adopted in his first 100-days show that the Biden administration is very much aware of the fact that the US economy needs more than 'recovery'. President Biden's "Build Back Better" plan is a mammoth investment programme, which aims to reform the American economy in a dramatic way. First, it includes massive spending on infrastructure. Specifically, the plan includes about $620 billion spending for roads and bridges and $165 billion for public transportation (mostly to Amtrak, the National Railroad Passenger Corporation). If realised, this would rebuild the highways of America as well as create a high-speed rail web across the country. Second, the plan would also pay for electric car recharging stations, water systems, improving the electrical grid and high-speed broadband internet, as well as housing. As it currently stands, the plan defines 'infrastructure' very broadly and goes beyond the traditional areas of infrastructure investment to include vast areas, which are critical for future productivity.

However, Biden's plan goes even beyond this expansive definition of infrastructure to include many other areas of public spending. It includes an expansion of Medicaid coverage (health insurance for elderly and disabled), veterans' hospitals, violence prevention programmes, support for job training, more funding for schools and childcare, and many more items of public spending. These programmes are aimed at not only improving the living standards of Americans but also labour force participation and worker productivity. Women, in particular, stand to benefit from public spending on care as this would allow millions of women who normally have to care for their children or the elderly to join the labour force. Worker training is also critical for enabling workers to switch to newly emerging sectors, thus increasing labour productivity. And even before their impact in the economy, all these spending programmes create millions of jobs in the care sector.

Moreover, the plan includes $300 billion in spending on new research and development (R&D). R&D subsidies have the potential to create momentum in technological advancements in the US, where productivity growth has been declining in recent years. Also, as part of the programme, the US federal government will positively discriminate against domestic producers in public purchases, thereby indirectly funding domestic industry. Specifically, the plan includes $400 billion in federal procurement of American-made goods. Given that the US federal government is the biggest purchaser of consumer goods around the world, Biden's 'Buy American' policy has the potential to create a substantial impact, effectively acting as a form of subsidy for domestic producers. There are other indirect subsidies in the plan as well, including further benefits for domestic producers such as tax incentives and easy access to credit on favourable terms for investing in their production lines and supply chains.

Biden's policy stance also envisages a change to the regulatory framework of the American economy. In line with the demands of the labour groups, most prominently the National Association for Manufacturers (NAM), the Biden administration attached a pro-union bill, under the Protecting the Right to Organise (PRO) Act, to the infrastructure plan. The bill seeks to reverse the decades-long trend of de-unionisation in the US. Especially since the 1980s, unions in the US have been losing power, making the US today one of the least unionised economies in the developed world. If it passes the Senate, the act will make it easier for independent contractors (e.g. workers in the gig economy) to unionise and allow unions to collect dues from non-unionised workers, which marks "the most significant changes to labour laws in decades" according to Wall Street Journal.

Combined with increased spending on R&D, worker training, key infrastructure, and tax incentives for domestic producers, the bill amounts to a massive transformation of the American manufacturing sector. Obviously, increased government spending in these areas does not come without costs. A big government requires more revenue, namely higher taxes, which constitutes the other side of Biden's reforms. Biden is pushing for higher corporate taxes and ultimately a more redistributive scheme, which is one of the most contentious issues in American politics. Reagan's neoliberal reforms began with lowering corporate taxes based on the 'trickle-down theory'; lower taxes on corporations would increase profits and thus incentivise investments, thereby creating jobs and income for the society. Biden is now reversing this logic; the government will collect more taxes from corporations and spend the revenue directly on investing in infrastructure, industry, and public services.

According to Secretary of Treasury, Janet Yellen, "America's corporate tax system has long been broken" and corporate taxes need to be increased. Yellen claims that Republican tax cuts in the past did not effectively incentivise investments and the US needs "a better corporate tax" system. More specifically, Biden's plan includes increasing the corporate tax rate from 21% to 28% as well as improvements in enforcement. In terms of enforcement, Yellen seems determined to battle tax havens and to end tax competition between countries. Tax competition between countries to attract business to invest in their respective countries is one major challenge facing governments seeking to impose higher taxes on companies. In particular, Yellen is calling for a global minimum tax on all companies regardless of where they are based, which, according to her, would "make sure the global economy thrives based on a more level playing field", and end a "30-year race to the bottom".

In terms of taxation, the plan would also end tax breaks on fossil fuel companies and instead provide $400 billion worth of tax credit provisions for firms using clean energy. Apart from subsidies for renewable energy and electric cars, this is another area where Biden's plan targets climate change. Ultimately, Biden is seeking to match his $4 trillion dollar spending package with a $3 trillion tax increase, countering criticism that his spending programme may increase the federal budget deficit, adding to America's already high public debt.

There is no doubt that Biden's plan adopts a very expansive view of what the government's role is in the economy, especially in a developed economy. In fact, President Biden's plan is in many ways a return to the old Keynesian model, which dominated policymaking prior to its crisis in the 1970s and its ultimate defeat by neoliberalism in the 1980s. In the post-war era, in particular, and in line with the Keynesian understanding, governments used their fiscal powers (i.e. spending and taxation) to the fullest in order to stimulate a higher investment rate, thereby creating jobs and accelerating wage growth, as well as lowering inequality. In this period, increased government spending on infrastructure and public services, combined with the more aggressive redistribution of income and wealth via higher taxes, contributed to what eventually came to be called the 'golden age' of capitalism.

Different to the old Keynesianism, however, Biden's plan also includes an element of Industrial Policy, which, similar to what we are used to seeing in East Asian economies such as Japan and Korea, aims to bolster some strategic industries via state support. In particular, the plan aims to increase the overall efficiency of the entire economy by targeting a number of carefully selected strategic industries with better prospects for technological growth in the future. In other words, the government does not only aim to increase the aggregate investment rate of the economy by compensating for low levels of private investment, but also target certain key areas by building sector-specific infrastructure, tax incentives, and subsidies. This selective approach with regards to the sectoral composition of government spending programmes may prove critical for the success of Biden's fiscal policies.

Competition with China

Biden's policy approach also has significant ramifications for the geopolitical conflict between China and the US. The trends in China-US relations over the last four decades show an obvious trend in favour of China. While Chinese industrial production and exports to the rest of the world have expanded exponentially, US industries regressed, and even disappeared in some key sectors. In the milieu of unrestricted trade and hyper-globalisation, industries that were considered as the backbone of the American economy, including the automobile and steel industries, relocated to other parts of the world, most notably China, where labour is cheaper. Consequently, while American manufacturing stalled, China became a manufacturing powerhouse. In this period, the American current account deficit with China has risen consistently, reaching very high levels in recent years.

The competition between the US and China on economic and political fronts was one of the main themes of Trump Presidency. Over the last four years, the Trump administration took several measures to revive American industries and close the gigantic US current account deficit with China. Early on, President Trump imposed higher tariffs on Chinese products entering the US and increasingly scrutinised Chinese technology companies for violations of intellectual property rights. Furthermore, Trump lowered taxes on American companies to make it more attractive to invest in the US rather than China. It is questionable how much impact these policies had or if they were able to tilt the balance between Chinese and American companies in favour of the latter. Chinese companies continue to compete quite fiercely with American ones in some critical high-tech sectors, including electronics, renewable energy, robotics, etc.

An increased focus on improving the global competitiveness of American industry and competition with China is set to remain high on Biden's agenda. Just like President Trump was promising "bringing manufacturing jobs back to America", President Biden promises "more unionised manufacturing jobs". However, the Biden administration follows a fundamentally different and more direct approach than the Trump administration. Above all, unlike the Trump administration, Biden's team has made it explicit that they do not intend to use trade policies (e.g. higher tariffs or other forms of constraints on Chinese imports) to keep American companies competitive. Also, unlike Trump's policies, tax cuts for American companies or the rich in general are not in Biden's policy plan.

As Treasury Secretary Yellen pointed out, the new administration wants to increase the efficiency of American workers and companies through direct investment in worker training, R&D initiatives, subsidies for innovative industries, etc. The government will target creating or expanding R&D-intensive sectors with better prospects for productivity growth in the coming decades. In Treasury Secretary Jannet Yellen's words, "The US will compete on our ability to produce talented workers, cutting edge research & state-of-the-art infrastructure, not on whether we have lower tax rates than Bermuda or Switzerland." Thus, it can be said that Biden's plan is more systematic and well-thought with its holistic approach; it goes beyond Trump's approach to adjust price rewards via tax cuts for American companies or protective tariffs targeting China.

Will Biden's policies work?

With Biden's election, the US seems to have entered a new phase in its political history. Similar to what happened with Roosevelt's New Deal in the 1930s or with Reagan's neoliberalism in the 1980s, President Biden is promising a paradigm change in economic policymaking and a deep transformation of the American economy. The Biden administration wants the government to play an increased role in the economy with higher taxes on corporations, more spending on infrastructure and key industries, as well as better and more inclusive services (most importantly, caregiving) for society at large. This new policy paradigm aims to create secure and good-paying jobs for millions of Americans and put an end to the decades-long trend of rising inequality in the US. These changes are part of what might be called a return to the old Keynesian model, which dominated the policy space in the post-war period. Moreover, Biden's approach also has elements of Industrial Policy. While how these reforms will play out remain to be determined, it is clear that the US is beginning to move away from the neoliberal paradigm that has dominated policymaking in the US since the 1980s.

Beyond its implications for the American economy, the new policy plan also targets objectives beyond America's borders. The Biden administration wants to increase US industrial competitiveness vis-à-vis their Chinese competitors; however, unlike the Trump administration, Biden's approach does not depend on trade policies, such as higher tariffs on Chinese imports, but rather on increased investments in American workers and businesses. These investments are expected to improve the productivity of the American economy and enable US companies to compete with Chinese firms on a level playing field. Furthermore, Biden's plan aims to battle climate change. The government will support strategic industries that contribute not only to technological growth but also that are environmentally friendly. In this regard, 'green industries' such as renewable energy technologies and electric cars are potential areas of investment.

However, we do not know if Biden's policies will be successful in stimulating job creation and economic growth. President Biden has said that, "I don't accept the defeatist view that the forces of automation and globalisation can keep union jobs from growing here in America. We can create more of them." Yet "forces of automation and globalisation" are very real and powerful challenges. Automation, for instance, is effectively reducing the need for human labour in production. In a middle-income country like China, where wages are relatively low, labour is usually less costly than sophisticated machinery (e.g. robots) so increasing investments and economic growth usually go hand in hand with job creation. However, in a rich country like the US, where wages are high, growth may imply even less jobs for people as investments usually involve instalment of better machines and robotisation. Biden's plan necessarily will have to account for with the implications of technological improvements if it hopes to make a positive impact.

In fact, Biden's policies may even be self-defeating and not help the project of creating more jobs. Many policies that intend to raise the productivity and cost-effectiveness of American industries are also eliminating jobs for American workers. Namely, better mechanisation or robotisation reduces costs and thus increases the competitiveness of American companies but also means that such companies need fewer workers for producing the same output. In this context, government subsidies may lead to less labour demand (i.e. less jobs) while increasing productivity. Moreover, advancements in certain industries, such as electric cars or renewable energy, imply the doom of others, such as conventional combustion engine cars or petroleum industries. In other words, government subsidies for some sectors may function as a punishment for other. Thus, Biden's industrial policies may amount to little more than shifting the sectoral composition of employment, creating jobs in some while eliminating them in others, without creating more jobs in the aggregate.

Another major challenge for Biden is globalisation. The Trump administration, with its 'America First' policy, was aiming to limit, even revert, the trend of rising hyper-globalisation witnessed since the 1990s. The Biden administration, on the other hand, does not seem to have a problem with globalisation or have any intention to use tariffs or other forms of restrictions on international trade. Thus, it remains unclear how effective Biden's plan can be in terms of incentivising companies to produce in the US. Low tariffs and free trade mean that companies can produce wherever they want and continue to sell in the US or any other country they want. Especially in sectors that require a lot of labour, companies will likely continue to prefer producing in other countries where labour is cheaper. On top of labour costs differentials, Biden now wants to increase corporate taxes and stricken labour market regulations, which may further discourage companies from producing in the US. Of course, investments in infrastructure and subsidies for domestic producers are important, globalisation will also continue to be a discouraging factor.

Overall, it can be said that President Biden is seeking to attack the core issues of the American economy. After forty years of market fundamentalism, the Biden administration is increasing the role of government in the economy; they intend to increase public spending on infrastructure, key industries, and vast areas of public services as well as increase taxes on corporations in order to pay for them. This clearly marks a major paradigm change. However, it remains to be seen if Biden's policies will be able to overcome the forces of automation and globalisation. In this regard, Biden's time in office will also be an experiment of whether a reversal of neoliberal policies can also reverse the trends of rising inequality and stagnating wages that most developed economies have experienced over the last forty years.