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## **The dangers of 'Bidenomics'**

### **News analysis**

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President Joe Biden's policies disregard economists, focusing mainly on geopolitics. Published on July 15, 2023, at 12:30 pm (Paris), updated on July 15, 2023, at 7:08 pm 4 min read [Lire en français](#)

President Joe Biden has launched his re-election campaign by focusing on the economy, touting the concept he calls "Bidenomics." He has relentlessly been promoting his economic policies – a mixture of protectionism, subsidies and social measures at a time of full employment – as ushering in a new era following the Keynesian economics of the post-war years and the neo-liberalism later inaugurated by Ronald Reagan.

Bidenomics are accomplished without economists, sometimes even against their advice, because the economy – like war to the military, as Georges Clemenceau said – is too serious to be entrusted to economists. Admittedly, Biden's team presents the appearance of orthodoxy, with Janet Yellen, previously chairwoman of the Federal Reserve, running the Treasury, and Lael Brainard, a former Fed vice-president, [appointed director of the National Economic Council earlier this year](#).

In reality, the economic policy is managed by the geopoliticians – namely White House National Security Advisor Jake Sullivan, tasked with confronting China – and the social and labor specialists. "Biden wants to put economists in the back seat, behind the foreign policy and social people. Being a mainstream or center-left economist, which his team would call neoliberal, is a negative," said Adam Posen, president of the Peterson Institute for International Economics, a pro-free trade think tank based in Washington.

### **A three-stage transition**

Biden's break with classical doctrine played out in three stages. The first occurred during Barack Obama's presidency, amid the financial crisis. The Democratic president pursued a reasonable orthodox policy. As a result, unemployment remained high, and America soon found itself stuck with growing inequality in what was dubbed "secular stagnation." Ex-post, Obama was accused of not running a large enough deficit and listening to economists too much. Failing to prosecute Wall Street financiers after the 2008 debacle, and allowing the economy, particularly the tech sector, to become an oligopoly, were seen as further mistakes. A second stage came in 2016 with the election of Donald Trump, who won over the deindustrialized states known as those of the "Rust Belt." Biden vowed that the Democrats would not be caught out twice. He opted for an industrialist, blue-collar rhetoric that included a repudiation of free trade.

A third stage came with the Covid-19 pandemic, which exposed the vulnerability of US companies' supply chains, particularly with China, now a national adversary. Russia's war in Ukraine further exacerbated the situation.

### **Inflation Reduction Act**

The vision was repeatedly articulated by Sullivan, who described the new "Washington Consensus." There were two spectacular policy measures: The 2021 stimulus package, in the wake of Biden's election, passed at a time when the economy was already recovering and vaccines were being delivered to the population.

Biden did not hear the warnings of moderate neo-Keynesian economists Olivier Blanchard and Larry Summers, who predicted a surge in inflation. The facts proved them right, with prices now up 16% since Biden took office. The situation is not resolved, and the Fed is likely to decide to raise interest rates above 5%.

The second measure was the adoption, in the summer of 2022, of a massive plan to subsidize microprocessors and renewable energies. This was the [Inflation Reduction Act](#). The legislation received a warm welcome from companies eager to cash in on valuable tax credits.

The US was reindustrializing, protecting itself by repatriating the production of strategic assets such as microprocessors and rare earths, and finally taking on the issue of global warming. Bravo. A triumphant America could say to its detractors, "You should do the same thing!", to quote Biden's Secretary of Energy Jennifer Granholm.

### **Subsidy wars**

"Biden can get rid of economists, but he can't get rid of economic realities," Posen said. Just as Biden continued to deny his role in sparking inflation, he paid no attention to the severe risks of his policies. The problem was not losing money – the US has so much it does not know what to do with it – but the slow poison that so much aid instills: These massive subsidies led to inevitable corruption and misallocation of assets by supporting non-performing companies. Intel, the fallen star of the semiconductor industry, was unable to return to profitability despite benefiting from billions of dollars of aid.

The situation led to a series of subsidy wars, which would inevitably turn into a trade war with China and the European Union. "It is escalating very quickly," Posen warned. This could hamper the adaptation of the most promising technologies, particularly in the fight against global warming, because every country is keen to protect their industries. The pandemic offered a foretaste of this, with the US first keeping its vaccines for itself, and Russia and China refusing to use them.

Finally, according to Posen, developing countries will need to make political choices about loyalty to China or the US going forward, not economic ones.

### **A destabilized world order**

Biden's policies are destabilizing the world order, and no one is paying any attention, writing off the globalization of recent decades. But the issue at stake is saving American democracy. In fact, Bidenomics are like Trumpism come true – there is a consensus in America on the subject – and their effect on the electoral map is to be interpreted cautiously.

In 2016, the initial analysis was that Trump had won by appealing to the downgraded white working-class victim of globalization. But he was a victim of technology and a poor candidate, Hillary Clinton. In 2020, if Biden won, it was not because the Democrats had recaptured this

working-class electorate but because they had mobilized women in the residential suburbs and minorities, as shown by the detailed analysis of Pennsylvania, which has gone back to the Democrats.

According to Posen, the 2024 election will be more of a referendum on the many conservative decisions of the US Supreme Court and the Democrats' ability to mobilize their camp, as demonstrated by the mid-term elections in 2022, which the Democrats won thanks to the Supreme Court's decision to abolish the federal right to abortion.

"If the Democrats win, people like Sullivan will say it's because of Bidenomics, but, in my opinion, it will have nothing to do with the economy, and more White men will continue to vote Republican than they realize," Posen said. "In every election since 2000, the influence of economics in predicting voting has declined." The battle has unquestionably become cultural, so it is essential to remain clear-sighted about the risks Bidenomics carry.