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Bidenomics

Bidenomics means different things to different people. It also seems to mean different things to President Biden. This lack of clear definition is part of why Biden receives little credit for his handling of the economy. A poll conducted at the end of June showed that just one in three U.S. adults approve of his economic leadership.

Bidenomics prioritizes enhancing employment opportunities and conditions for what used to be called the working class. (Nowadays all Americans, other than the wealthiest, are referred to as "middle class.") This aspect emphasizes ensuring that all workers, including those from disadvantaged segments of society, receive good wages and job security. The goal, as the president put it, is economic growth "from the middle out and the bottom up, instead of just the top down."[1]

The Administration has pursued several avenues for achieving this goal, including investing in infrastructure and encouraging unionism. But the key strategy at the outset of Biden's term was "running the economy hot." Biden's $1.9 trillion pandemic rescue package, rolled out in early 2021, included money for unemployment insurance, for payments to families, and for development of COVID-19 vaccines. There were compelling arguments for each form of spending.

But the size of the overall package was seen as a way of avoiding a decade of slow growth and wage stagnation like that following the Global Financial Crisis. Strong demand, the argument ran, would insure that income gains were inclusive. Firms facing tight labor markets would hire workers from underrepresented segments of society. With a foot on the economic ladder, those workers would acquire additional skills and the opportunity for income growth.

In one sense, this strategy worked. Unemployment fell to historic lows, just 3.6% in June of this year. Jobless rates fell to 6% for Blacks and 4.3% for Hispanics. Nominal wage growth in 2022 for Black Americans employed full time was 11.3%, compared to 7.4% for the workforce overall.

Much of the increase in earnings was eroded by inflation, of course: real average weekly earnings, seasonally adjusted, rose by a scant 0.6% in the year ending in June 2023. Biden's economists had assumed that running the economy hot would not fuel inflation. After all, the more limited Obama stimulus following the financial crisis did not create inflationary pressures. By 2021, inflation had been absent for more than a decade. In this respect, clearly, the administration's forecasts were decidedly wrong.

To be sure, Biden's advisors were far from alone in dismissing inflation. And the delayed reaction of the Federal Reserve deserves just as much blame for the inflation that followed as the fiscal stimulus. Still, if one factor explains public dissatisfaction with the president's economic stewardship, it is inflation. Sixty-five percent of Americans surveyed by the Pew Research Center in June viewed inflation as a serious problem, higher than the share responding to questions about 15 other issues ranging from illegal immigration to violent crime.

In their defense, Biden's economists, building on research by academics such as Isabella Weber, pointed to the ability of firms with market power to take advantage of strong demand by marking up prices. This rebuttal dovetailed with a second aspect of Bidenomics, namely vigorous enforcement of competition policy. In July 2022, Biden issued an executive order strengthening

1 White House (2023, 28 June), Remarks by President Biden on Bidenomics, Chicago, IL, Speeches and remarks.

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anti-trust policy. In January 2023, the Antitrust Division of the Department of Justice filed a suit against Google for monopolizing the ad tech business. In March, it sued to block JetBlue Airways from acquiring Spirit Airlines on the grounds that it would raise prices and reduce competition. And on July 20th, the Biden Administation rolled out more restrictive merger guidelines designed to slow corporate consolidation. The result has been a decline in mergers and acquisitions and abandonment of a number of proposed deals. That said, it is too early to know whether lower prices and more competition will result.

A third aspect of the Biden Administration's approach, again justified on grounds of putting the middle class first, is its restrictive trade policy. Biden was widely perceived as more of a free trader than his predecessor, Donald Trump. This proved to be a misperception. Biden has not rolled back, much less abandoned, Trump's tariffs on China. He has gone further by also placing controls on exports to China of semiconductor manufacturing equipment and other high-tech goods. In a speech at the Brookings Institution in April, National Security Advisor Jake Sullivan advocated a "foreign policy for the middle class," arguing that protection of sensitive industries should replace free trade in America's policy arsenal.

That the speech was delivered by Biden's national security advisor and not his treasury secretary is revealing of underlying motives. Sullivan may have invoked the need for good middle-class jobs when justifying the administration's restrictive trade policies, but the dominant motive was to slow the development of high-tech dual-use technologies by China and to enhance America's self-sufficiency in strategically important goods. There may be national security arguments for these measures, but in the short run they make for higher prices for U.S. consumers, as former treasury secretary Lawrence Summers has observed. And higher prices foment dissatisfaction with Bidenomics.

This emphasis on self-sufficiency in the production of strategically important goods leads to the final and most controversial aspect of Bidenomics, namely its industrial policies. The Administration and Congress have agreed to hundreds of billions of dollars of subsidies for semiconductors, renewable energy and infrastructure, begging three questions. First, are these subsidies appropriately targeted – how do we know which sectors and activities are strategically important and worthy of subsidy? Second, will the subsidies work? And third, even if they work, at what cost?

U.S. dependence on Asia for the production, as opposed to design, of advanced semiconductors was a problem during the COVID-19 pandemic, when shipping disruptions prevented their import, causing the motor vehicle industry, among others, to essentially shut down. Hence there is a resilience argument for investment tax credits like those extended under the CHIPS Act for the construction of new semiconductor fabrication facilities, and for R&D subsidies to encourage advanced chip prototyping. But Biden's policies also encompass potential subsidies for a variety of other industries, from steel to solar panels. Political economists worry, not without reason, about capture – that lobbying will cause subsidies to be diverted to less deserving uses.

Whether the CHIPS Act succeeds in boosting the production of, say, semiconductors will depend on the relative importance of investment and research costs, which it addresses, but also on permitting requirements and the availability of appropriately skilled labor, which it does not. As for costs, it is conceivable that domestic fabs could move rapidly down their learning curves and become competitive with foreign facilities. But it is equally conceivable that U.S. consumers will end up with higher costs, paid directly via higher prices or indirectly via the subsidies funded by their tax dollars. These uncertainties – whether bureaucrats will target the right industries, and whether firms will move down their learning curves – make Bidenomics' industrial policies a gamble from the economic, as opposed to the security, point of view.

Thus, the early returns to Bidenomics were strongly positive, if weakly appreciated. The longer-term consequences are still to be determined.