POLITICS

Joe Biden's Economic Agenda: An Early Appraisal

Could he be even more anti-market than Donald Trump?

BY PIERRE LEMIEUX

President Joe Biden's economic agenda, as it was revealed before and shortly after his inauguration, is not surprising. It is what should be expected from the contrary trends within his party, his campaign promises, the constituencies he needs to please as an astute politician, and the zeitgeist of our times.

Biden himself is known as a moderate. But moderate Democratic economic policy has moved left since the presidency of Bill Clinton (and toward interventionism generally), and Biden has followed. The shape of his economic agenda will be better known by the time this article is published and he will have entered his third month in office, but its outlines were already visible when these lines were written in late January. Here is an initial appraisal.

DEFICIT AND DEBT

Last September, the Committee for a Responsible Federal Budget (CRFB), a nonpartisan think tank focused on fiscal policy, forecasted that Biden's campaign promises and position papers implied an increase in the accumulated federal deficit of some $5.6 trillion (middle estimate) over the coming decade. That wasn't much different than the estimate for his election rival, incumbent Donald Trump. Trump intended to cut taxes and support his heavy spending by borrowing (or creating) money, while Biden intends to *raise* taxes and borrow (or create) money to support his even heavier spending. Under either candidate,

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annual deficits of $1.6 trillion would become the norm, compared with the $1 trillion deficit Trump reached before the pandemic and the $3.1 trillion deficit in fiscal year 2020 (October 1, 2019 to September 30, 2120).

The CRFB forecasts assumed that Biden would remain as "moderate" as what he had promised up to that point in his election campaign. For example, the annual deficit of $1.6 trillion assumed that he would not adopt any major expansion in government health care spending beyond a public health insurance option and that he would not embrace the Green New Deal favored by some Democrats on the left. If he yields to his party's more extreme voices and uses the pandemic crisis as an opportunity for still more government growth, the current $3 trillion deficit could become routine, resulting in a much larger public debt than the Congressional Budget Office was already predicting.

Continuous stimulus expenditures could also lead to higher deficits. Biden is a more enthusiastic Keynesian than Trump was, although both men have only a fuzzy idea (to be charitable) of the macroeconomic theory originated by John Maynard Keynes in 1936. Biden and his entourage don't question the strange idea that just by transferring or creating money, political authorities can increase "aggregate demand," leading to more production and prosperity. Nineteenth-century French economist Jean-Baptiste Say correctly criticized Voltaire's claim that Louis XIV's "superb edifices," such as his Palace of Versailles, were no burden for his subjects because his expenditures made money circulate and land in their pockets. In some ways, Keynes just reformulated that idea.

So, how will Biden's increased expenditures be financed? He claims, or hopes, that higher taxes on "the rich" will finance a large part of his new expenditures. "The rich" include households now earning more than $400,000 a year. Part of Trump's reduction of the corporate tax rate will also be reversed. However, corporations don't pay taxes any more than, say, rocks do: if the government were to tax rocks, the actual incidence of the tax would fall on some flesh-and-blood individuals. In the case of corporations, those individuals are some combination of shareholders, employees, and consumers. Such tax increases would dampen and perhaps threaten any economic recovery.

What is not financed by new taxes will be shifted to future taxpayers through increased government borrowing. Or it will be paid by current taxpayers through inflation generated by money creation. Other forms of "financial repression" (indirect transfer of resources to the government) have occurred before and could occur again; think of caps on interest rates for bank accounts, for example. The inescapable reality is that flesh-and-blood individuals will have to pay for the resources diverted to government programs. These net payers cannot be only the super-rich because there is not enough of them. The payers also are unlikely to be members of the governing class because, on net, they will in fact increase their perks, authority, and relative incomes.

President Biden meets with Treasury Secretary Janet Yellen at the White House.

DPA PICTURE ALLIANCE / ALAMY

THE LURE OF CENTRAL PLANNING

Central planning has long been in style in Washington, but Biden is sure to ramp it up. He is beholden to the illusion that government allocation is more efficient and more just than decentralized and independent actions of free consumers and producers. His "National Strategy for the Covid-19 Response and Pandemic Preparedness," published on his second day in the White House, is revealing, even if we grant that the pandemic is a special crisis requiring some extraordinary measures.

The National Strategy is presented as a "coordinated response," a "whole-of-government response," a "unified plan," "driven by science and equity," "evidence-based" and "metric-driven," with "multi-sector organizations" and "diversity and inclusivity in mind." One of the tools for producing and distributing more vaccines will be to "exercise the Defense Production Act" (DPA). This means that the new administration will use the coercive powers of that Korean War–era central planning law, which has already been invoked by Donald Trump several times since March 18, 2020—one year ago. The Trump administration used it to push companies to increase the manufacture of ventilators, though it's unclear how the law got them to make any more units than they would have otherwise. The DPA has also been used to prosecute some sellers of protective equipment and to try to reduce the shortages of pandemic-related materials that federal "price-gouging" provisions in that very law created or amplified.

Last year, Biden blamed Trump for not using the war powers of the DPA earlier and more forcefully. He now wants to repeat and intensify his predecessor's planning illusion, notably for distributing vaccines against the coronavirus. How a half-Sovietized distribution system (pardon the slight exaggeration) will succeed in rapidly getting the vaccines into "pharmacies and retail stores," as Biden's National Strategy envisions, is a mystery. If government distribution and allocation were an efficient system, it would be known by now; and it is the crash of the American economy instead of the Soviet economy that the world would have witnessed some three decades ago.

The mask policy envisioned by Biden's National Strategy stayed clear of a national mandate. But he did nonetheless implement an expansive mandate in his Executive Order 13991, requiring masks "in Federal buildings and on Federal lands." "Federal lands" apparently means (according to another executive order) "lands under executive branch control," which would seem to include national parks, national forests, and the large tracks of federal land in the West. The federal mask mandate also covers much interstate public transportation, which is mainly private airliners and motorcoaches.

A little over a week after EO 13991, a Centers for Disease Control and Prevention order (another order!) extended the mask requirements to all public transportation and transportation hubs *within* individual states and the District of Columbia. The CDC claims the order is technically not a "rule" or regulation, which would normally require a benefit–cost analysis and a period of public comments before it could be implemented. The CDC's claim is lawful but illustrates how porous are the current protections against abusive regulation. A related nightmare: imagine that Biden borrows Trump's open-ended concept of national security emergency and declares a climate emergency.

Will Biden continue to miss opportunities to both take a stand against Trumpian ignorance and articulate a public health position based on individual choices and liberty? "Listen to science" is Biden's public health motto. "Put scientists in charge of all decisions on safety and efficacy," he declared during the election campaign. But what about also listening to economic science, which shows how to take all individual preferences into account and not only those of public health experts hired or subsidized by the government?

ASSISTANCE AND NATIONALIZATION

In a catastrophe like the pandemic, a serious argument can be made for temporary assistance. Such an argument is limited in scope, though. For example, the consequences of policies that worsen the crisis, such as government allocation and price controls, should not be used as an excuse for more assistance; the original policy errors should be corrected instead. In late January, that did not seem to be Biden's orientation.

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The new president does seem to be using the crisis to push for unrelated policies long advocated by his party—such as a federally financed universal paid leave for families when a child is born (or other disrupting events happen). Besides being expensive, this sort of program piles on top of the plethora of other disorderly ad-hoc welfare state programs. It will further accentuate Americans' dependence on government handouts.

Since April 2020, the Federal Pandemic Unemployment Compensation (FPUC) has been augmenting state unemployment benefits. This raises the specter that some unemployed workers will prefer to receive the benefits rather than return to work. Early studies of FPUC suggest this hasn't happened much so far, but it is difficult to believe that there would not have been more workers returning to work or finding other jobs if they could have thereby put more money in their pockets. As this article is written, Biden is pushing to increase FPUC benefits from $300 a week to $400 and extend them until the end of September. Economic reality: if fewer people work and less is produced, not everybody can consume more, whatever the number of nominal dollars the government throws at its preferred constituencies.

One of Biden's numerous executive orders in January revoked, or launched a review of, Trump's executive orders and other measures that restricted the operation or coverage of the Affordable Care Act. More importantly, he has promised a public option superimposed on the ACA, which is currently based on regulated (and, for the poorest consumers, subsidized) private insurance. It is not clear what form this public option will take, but it would mark a major extension of federal intervention in health care.

All government levels in America already finance half of heath care expenditures, which themselves correspond to 17% of GDP and 20% of consumer spending. At what point should we stop thinking that America has a free market in health care? Or that the American economy is free?

Biden announced an extension until September of Trump's moratorium on student loan payments. This intervention could have been more radical: many hoped (or feared) that he would outright cancel part of students' debt. He is expected to push for more federal education subsidies from kindergarten to college. According to estimates from the CRFB, child care and education ($2.7 billion over a decade) will constitute Biden's largest field of new expenditures, just after the composite area of infrastructure, environment, and industrial policy.

REGULATION AND INDUSTRIAL POLICY

In environmental matters, nobody knows if Biden will move further toward the progressive wing of the Democratic Party. Rejoining the Paris Accord, as formally announced in EO 14008, is mostly symbolic because it is a toothless pact, but symbols serve to structure expectations, fuel international rulers' solidarity, and motivate action.

Among the flurry of executive orders Biden signed within 48 hours of becoming president was EO 13990, which included a provision cancelling the partly built Keystone pipeline that would have delivered Canadian oil to southern American refineries. In March 2019, after years of uncertainty, Trump—for the second time—issued a permit for the pipeline. He specified that "this permit may be terminated, revoked, or amended at any time at the sole discretion of the President of the United States." What Caesar can do, Caesar can undue, and Biden revoked the permit.

Under EO 14008, the Biden administration is "paus[ing] new oil and natural gas leases on public lands or in offshore waters pending completion of a comprehensive review." It will also "ensure … that Federal funding is not directly subsidizing fossil fuels," which would be good if it did not plan to subsidize its favorite clean energies either.

When you read the 22 pages of EO 14008, titled "Tackling the Climate Crisis at Home and Abroad," the task looks so complicated with so many agencies, councils, bureaus, chairs of this and chairs of that, and multitudinous participants (including "local environmental justice leaders") that the project seems impossible to pull off by politicians and bureaucrats. Vague and dangerous mantras such as "environmental justice" stand out in the order's text like freshly polished shoes.

"Environmental justice" seems to mean addressing "the disproportionately high and adverse human health, environmental, climate-related and other cumulative impacts on disadvantaged communities, as well as the accompanying economic challenges of such impacts." The concept is obviously expandable. In the Department of Justice's new "comprehensive environmental justice enforcement strategy," one may surmise that the "enforcement" does not mean kisses from Gaia.

Some may find solace in the fact that this executive order merely aims at putting the United States "on a path to achieve net-zero emissions, economy-wide, by no later than 2050," as well as devising a "comprehensive plan" to "achieve or facilitate … a carbon pollution-free electricity sector no later than 2035." But much coercion will be exercised, and much money spent, on that path.

Industrial policy / In many ways, Biden's economic agenda looks like an attempt at industrial policy. It advances a set of interventions pretending to determine which industries will grow at the expense of others—presumably because government has better knowledge of the future and its opportunities. We've seen such exercises before. For instance, in the 1960s, French President Charles de Gaulle's *Plan Calcul* ("Computing Plan") aimed at making France a computing behemoth. Not surprisingly, it was a flop, like most attempts at industrial policy in developed and developing countries.

Biden's industrial policy is typically nationalist. With Trumpian accents, he declared to the *New York Times* in early December, "I want to make sure we're going to fight like hell by investing in America first." Like de Gaulle, Biden believes he and his advisers know the industries of the future: he mentioned energy, biotech, advanced materials, and artificial intelligence.

But Biden's pursuit of the industries of the future will not prevent his getting stuck in an old-timer's industrial policy: his electoral platform said he wants to "create *millions of new manufacturing and innovation jobs throughout all of America*" (emphasis in original). He constantly grovels to trade unions with tropes such as "creating well-paying union jobs," which means coercive labor regulation and discrimination against Americans who don't want to be unionized.

Industrial policy is necessarily disorderly and irrational, except in the sense that it goes where special interests pull it. The Biden administration may not be less tough than Trump on high tech companies, including with antitrust actions. At other times, it will focus on different excuses for intervention, such as privacy. It will dislike different speech contents than Trump disliked. Competition and innovation will be the victims.

Regulation / Regulation (orders and bans) necessarily follows from interventionism. There is little doubt that even if Biden remains a moderate Democrat, the pace of federal regulation will accelerate dramatically over the snail's pace of Trump's first three years, and even above Trump's activist fourth year. (See "Trump's Regulatory Legacy: A First Draft," Winter 2020–2021.)

Other signs of greater regulation under Biden include such things as a promised control of drug prices and the extension of Trump's pause on tenants' evictions and on foreclosures of houses financed by federally guaranteed mortgages. Many of the new regulations will hurt those who are most in need of help. A higher minimum wage will push the least productive out of the (legal) labor market. (See "From Minimum Wages to Maximum Politics," Summer 2014.) The fear of future controls on evictions and mortgages will add a risk premium to rents and to the price of mortgages. And expect a boom in financial regulation, which will continue to restrict economic freedom in an area crucial for economic efficiency and prosperity.

Biden's January 20 memorandum on "Modernizing Regulatory Review," together with EO 13992, is also very worrisome. The thrust of these actions is obviously to change the regulatory review process from a benefit–cost perspective aiming at some economic objectivity to a biased exercise "to ensure that the review process … does not have harmful anti-regulatory or deregulatory effects." An explicit goal is to give the Office of Information and Regulatory Affairs "a more pro-active role" in promoting regulations as opposed to just evaluating them.

There is one bit of good news: immigration is an area where President Biden will likely reduce regulation. His promised policies would be more humane and more conducive to economic growth, besides being in line with American traditions.

TRADE AND TRUMP 2.0

In general, the basis of Biden's economic approach seems to be the belief (which was largely shared by Trump) that voluntary exchange among free individuals cannot be counted on to ensure economic prosperity and individual flourishing. This is perhaps most obvious in international trade, where Biden is likely to continue Trump's policies. The one difference is that the benefits will go to a different corner of the Washington swamp: trade unions instead of inefficient American companies. But it is all one big swamp. Trump had Peter Navarro to oversee his protectionist agenda, and Biden has an entourage of Navarro imitators to oversee his. Apparently, Biden and his entourage have no more understanding than Trump did that economic efficiency is defined in terms of consumer satisfaction, not producer privilege.

Another example: Biden boasted of being "a consistent and strong advocate for the Jones Act." The 1920 law restricts shipping between American ports (including between mainland ports and Hawaii, Alaska, or overseas territories) to American-built and American-operated ships. The law has increased prices for American consumers and American producers and rendered the protected American fleet old and obsolete by world standards. (See "Does the Jones Act Endanger American Seamen?" Fall 2017.)

Biden said that he has no plan to remove the tariffs that Trump imposed on Chinese goods and that have cost American consumers—especially poor ones—dearly in terms of higher prices. Regarding federal procurement, his EO 14005 of January 25 announced a protectionist redefinition of goods "made in America," building upon previous EOs by Trump, including EO 13975, signed less than two weeks earlier by the outgoing president. Like Trump, Biden does not believe in free trade but in "fair trade" as he (and his union-boss supporters) defines it. He promises to "stand up for America." Protectionism is the area where Biden is most likely to be Trump 2.0.

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Besides his ideas, or lack of them, and the ideology of his party, another reason why Biden may end up being a worse economic interventionist than his predecessor lies in his talents for political horse trading. Having been a politician all his life, including 36 years in the Senate, *he* knows the "art of the [political] deal." Public choice theory shows how that can be detrimental: each politician sells his pet projects against his support for other politicians' pet projects, and the voters end up with a basket of projects that virtually nobody would buy because their total cost is higher than their benefits.

Biden's chief of staff, Ron Klain, argued that the legal footing for his boss's executive orders lies in the "restoration of an appropriate, constitutional role for the President." Let's hope, on the contrary, that Biden will realize—or that events will force him to understand—that 51% electoral support does not allow him to bulldoze the preferences of the other 49%. The foundation of this argument lies in the idea that the United States is a limited, compound republic, not a numerical democracy. Moreover, if we consider the third of the electorate that doesn't vote, Biden won the support of about one-third of eligible voters.

Those facts, alas, did not prevent Biden, in his inaugural speech, from twice invoking the "will of the people," a totally mythical construct meant to justify totalitarian democracy. (See "Populist Political Choices Are Meaningless," p. 54.)

Yet, it is not impossible that President Biden will turn out to be more moderate and less dirigiste than I have argued, just as Trump was more dirigiste than many people had anticipated (or even realize today). It has happened that political leaders on the left were more economically sensible and frugal than their precursors on the right (think Bill Clinton), perhaps because they were better able to resist illusions and attacks from their side of the political spectrum. Moreover, it is well known and even mathematically demonstrated that voting can lead anywhere in policy space.

Still, it is my guess that under Biden and his cohorts, liberty and prosperity are in for a rough time. R