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The Biden Administration Fails Econ 101

BY RICHARD B. MCKENZIE

President Biden and his advisers seem confident that they can deny reality by ignoring long-standing economic principles and the basic market forces of supply and demand. The Biden team is in serious need of an Econ 101 refresher course. Key economic policies that the administration adopted during the president's first year and a half in office defy economic principles covered in introductory courses.

ZERO-COST GOVERNMENT?

Consider one of the administration's earliest and most preposterous claims, that the federal government can increase its annual expenditures (and budget deficits) by trillions of dollars and that the cost will be nothing. As he tweeted on September 25, 2021, "My Build Back Better Agenda costs zero dollars." But even that's not the worst of it. He also claimed that the substantial added federal spending has dampened the rise in the inflation rate and that additional spending under his proposed agenda would have lowered inflation even more, if Congress had approved it, which it didn't.

President Biden and his advisers apparently

have never heard the economic axiom, "There's no such thing as a free lunch." Because Biden insists that his trillions in additional federal expenditures cost nothing, he can feign—as he and his advisers have done—that his economic agenda will not impose a "single penny of additional taxes" on Americans who earn less than \$400,000 annually. Moreover, Biden proclaims, "Everyone benefits."

Nonsense. If only President Biden and his advisers would reflect on their Econ 101 lessons. Federal taxes reduce what Americans at all

income levels can buy for themselves and their families with their paychecks, thus transferring resources for public purposes. Added federal expenditures—whether financed by added taxes or deficit spending—have the same consequence but sometimes in obscure and hidden ways. The added spending always soaks up real resources and, in doing so, reduces the availability of resources to produce an array of private goods—such as houses, gasoline, or party favors—that rich and poor

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In June, government affairs director **JEFF VANDERSLICE**, senior fellow **WALTER OLSON**, research fellow **THOMAS A. BERRY**, and staff writer **ANDY CRAIG** addressed more than 50 staffers from both parties and both chambers on the need to reform the Electoral Count Act in the hearing room for the Committee on House Administration.

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Americans alike would have bought. That's true whether they pay taxes collected by the IRS or are "taxed" surreptitiously by reductions in the available private goods they can buy.

This hidden tax imposed by the mounting federal expenditures during President Biden's first year in office revealed itself in empty store shelves, supply-chain disruptions (in addition to those caused by the COVID-19 pandemic), and an abrupt increase in the year-to-year inflation rate, jumping from 1.4 percent in January 2021, the month President Biden took office, to nearly 5 percent in late 2021, and to 9.1 percent in June 2022, the highest (year-over-year) inflation rate since 1981. Workers' money-wage increase in June 2022 over the previous 12 months was 5.1 percent, but they suffered, on balance, a 3.1 percent decrease in their real (that is, inflation-adjusted) average hourly wage rate (and a 3.9 percent decrease in their real weekly earnings) over the previous year, as reported by the Bureau of Labor Statistics in July.

Workers' real-wage losses during 2021 can be partially chalked up to pandemic restrictions. However, as noted, throughout 2020 and through early 2021, the inflation rate remained close to (and often under) 2 percent, which suggests that other economic forces—including Biden policy changes—were at work, accelerating the inflation rate.

The economics lesson forgotten or ignored by the Biden administration is clear: The "free lunch" diners—recipients of so-called stimulus checks, including households with six-figure incomes—unavoidably dined in 2021 at the expense of others. Even many stimulus check recipients found that they paid for a portion of their government largess by an erosion of their future real wages earned after they had spent their checks.

This one claim—that added government expenditures could come at no cost—would put the president's grade in grave jeopardy in most of the country's introductory economics courses.

“ The Biden administration has been conveniently ‘blind’ to the unseen effects of its economic policies.” ”

GOOD AND BAD ECONOMISTS

In the first half of the 19th century, French economic journalist Frédéric Bastiat admonished his readers that “there is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.” The president has at most been considering only the visible effects of his policy agenda while overlooking or denying those effects that are out of sight (and out of mind). But these unseen effects are inextricably linked to serious economic consequences that have undercut the real long-term incomes of Americans and people around the world.

Even more importantly, President Biden appears oblivious to the unseen but inevitable effects of his well-intended “green” policies, which is to say that he doesn't seem to realize that he cannot aggressively pursue a green-energy policy—a central goal of which is drastic reductions in fossil fuel emissions over the coming years and decades—without a spike in the prices of various sources of energy, and not only oil prices, which rose by nearly three-fifths during his first year in office. This is because he has or plans to adopt long-term policies that restrict fossil fuel production and distribution such as, for example, terminating the Keystone XL pipeline from Canada to the middle of the country and prohibiting drilling

on federal lands. The result of these long-term supply restrictions can be expected, as intended, to push up fossil fuel prices and at the same time shift demand to higher-cost and less reliable energy sources such as solar and wind.

Yes, President Biden, with the cooperation of Congress, might make such energy sources *appear* cheaper but only through hidden federal subsidies (several of which are attached to “green car” purchases), which have been included in his expanded federal budgets. The real *total* cost to the country for a given energy amount must include the added taxes imposed on people to provide the green subsidies. If the alternative energy sources President Biden favors were not more costly, absent subsidies, people would have already rushed to use them. After all, Americans want lower home heating bills. And they reacted negatively to the higher energy bills they faced during the 2021–2022 winter as a result of Biden's restrictive energy policies.

In large ways, the Biden administration has been conveniently blind to the unseen effects of its economic policies, including how higher energy prices have helped fund Vladimir Putin's invasion of Ukraine.

UNDENIABLE MARKET FORCES: SUPPLY AND DEMAND

When oil and gasoline prices continued rising throughout 2021 and into 2022, as should have been expected, President Biden's first escape hatch was to declare the rising prices during the summer 2021 to be “transitory.” After eight consecutive months of claiming “transitory” price increases, President Biden adopted a time-worn strategy: blame others! In this case, he targeted Big Oil. Major oil companies were conspiring, he asserted without evidence, to use their market power to hike gasoline and heating oil prices and to pad their shareholders' pockets with higher profits.

President Biden's cartel theory of rising oil and gas prices also never squared with the fact that the oil companies hadn't conspired to curb the global market supply prior to the advent

of the Biden energy policies. Perhaps the COVID-19 pandemic facilitated, in some unspecified minor ways, the ability of the oil companies to collude on price. If so, why didn't they collude during the last year of the Trump administration when the pandemic erupted with force and oil companies suffered tens of billions of dollars in losses? The more likely, and reasonable, dominant explanation for the rapid rise in energy prices is that the pandemic brought additional cuts in energy supplies that were then deepened by added supply restrictions created by the Biden administration's energy policies.

But then, President Biden seems to believe that the only value of higher prices on suddenly more limited products such as oil is to pad the profits of oil companies. When he imposed sanctions on Russia for its Ukraine invasion, he warned oil companies not to exploit consumers by raising oil prices to boost their profits, as if he did not understand that controlled prices would result in shortages. Recall the long lines and wait times at gas pumps in the early 1970s, when President Richard Nixon froze pump prices after the Organization of the Petroleum Exporting Countries, or OPEC, oil embargo. As taught in all Econ 101 courses, higher market prices in times of supply shortages serve the valuable function of encouraging consumers to conserve and thus allocate scarce resources toward their more valuable uses, without government direction, and without empty store shelves and long waits at pumps. President Biden had obviously forgotten this sad price-control history when in early July he pleaded with U.S. refineries to lower their gasoline prices as a matter of "patriotic duty."

The Biden administration is quick to condemn private companies for allegedly conspiring against the general public through cartelized prices. At the same time, Biden's treasury secretary Janet Yellen has led the development of an international cartel of nations to set minimum tax rates—all intended—and insists that it's to "stop the [countries' competitive] race to the bottom" on corporate tax rates.

“ Janet Yellen has led the development of an international cartel to set minimum tax rates. ”

Apparently, she and her boss ignored another economics lesson (which Secretary Yellen must have taught as a professor), that cross-country government conspiracies to prevent competition on their tax rates can increase the tax burden on taxpayers, just as private conspiracies on prices can increase the expenditure burden on consumers.

And President Biden had good reason to reduce tax-rate competition among nations: he intended to propose in 2022 increases in the U.S. tax rates that, if enacted, would raise an additional \$2.5 trillion in additional taxes and that would give the United States the honor of having "the highest top tax rates... in the developed world," according to a Tax Foundation study. The U.S. combined (federal plus state) corporate tax rate would rise from 25.8 percent to 32.3 percent, topping the combined rate in every other Organisation for Economic Cooperation and Development country. Who is exploiting whom, oil companies or the administration?

TARIFFS AS A SOURCE OF ECONOMIC DAMAGE

In 2021, President Biden doubled the tariff on imported Canadian lumber to 18 percent, fully expecting that the higher tariff would raise the price of imported lumber, which would also raise the price of U.S. lumber and thus the wages of blue-collar, mostly union workers in the U.S. lumber industry. Another key lesson from Econ 101: the inevitable consequence of

the added tariff is to undercut total production and total real income of all Americans.

Total real income in the country must go down with a reduction of available resources (lumber) that can be obtained only at greater cost, because of trade restrictions. Trade, within cities or across national borders, is always two-way. Canadians sell Americans their lumber because they want U.S. dollars to buy American goods, services, real estate, and stocks and bonds. Canadians would not continue to sell Americans lumber for long if they got nothing in return. So, if U.S. tariffs on Canadian lumber curb the dollars that Canadians receive, they will end up buying less of what Americans have to sell, which means a reduction in Canadian lumber sold in the United States will lead to a reduction in Canadian imports of American goods, say, automobiles and streamed movies. The lumber tariff can also lead to a reduction in Canadian investments in the United States that, with time, can undercut American production and real income.

Any job gains from added tariffs in the U.S. lumber industry would likely be more than offset by a reduction in jobs in U.S. lumber-using industries and export industries, as well as a reduction in U.S. industries that, absent the tariffs, would have received an infusion of Canadian investment. The tariffs on Canadian lumber can be expected, of course, to also lead to higher housing prices and decreases in jobs in the U.S. construction industry.

The net effect of trade restrictions imposed by either the United States or Canada will be to increase production costs in the two economies, reduce mutually beneficial trades, and lower the aggregate real incomes in both countries.

PRESIDENT BIDEN AS A FEDERAL SANTA CLAUS

The president must presume that his most fundamental duty is to provide his political base with added welfare subsidies at no (tax) cost to recipients but substantial costs to the "rich," or those who make more than \$400,000

“ President Biden deserves a failing grade. ”

a year (Biden’s self-identified threshold for “rich”). President Biden doesn’t seem to have learned in his Econ 101 course that when taxes are applied to targeted groups, say, the rich, they can shift a portion (if not all) of their added tax burdens to others, including middle- and lower-income production workers. The rich can do that through product price increases and wage reductions—and through inflation. Yet Biden appears convinced that he can run up deficits into the trillions without harmful effects on Americans earning less than \$400,000.

President Biden, who seems to have become enamored with the new and unshackled “modern monetary theory” advocated by the Democratic left, also seems to have concluded that if the Federal Reserve monetizes the added federal debt through purchases of federal bonds, no harm will be done to real people. After all, money (which can be nothing more material than paper or even electronic digits in bank accounts) is cheap to produce.

President Biden and Fed Chairman Jerome Powell don’t seem to realize that the \$5 trillion increase in the Fed’s purchases of U.S. debt during 2021 resulted in a double-digit increase in the country’s money stock during 2021 and would likely cause a spike in the inflation rate, another missed Econ 101 lesson. Economists have long known, and taught, that an increase in the money stock means that more dollars are chasing available goods, which can translate into higher prices over time, the definition of inflation. With the inflation rate escalating and the growth in the money stock exceeding double digits for the previous year, President Biden must surely now remember that money-supply growth and inflation have trended together for a long time, at least since World War II.

How has the Biden administration, with help from the Democrat-controlled Congress, engineered the surge in the inflation rate? Hoover Institution monetary economist John Cochrane has a succinct explanation that harkens back to the monetary theory of Nobel laureate Milton Friedman. Beginning in March

2020, Cochrane observes, “The Treasury issued \$3 trillion of new debt, which the Fed quickly bought in return for \$3 trillion of new reserves.” The Fed then quickly followed with another \$2 trillion in U.S. debt purchases, which the Treasury immediately converted to more stimulus checks and “payroll protection” loans. The federal debt rose almost 30 percent in a year, as did the money stock. Cochrane points out that in other eras in which the Fed monetizes federal debt, the newly created money would be held, at least for some time, as reserves in the Fed, but this time the debt was almost immediately passed out to people (hobbled by pandemic restrictions) who were eager to make rental payments, feed their families, and (in some cases) fuel their drug habits. In short, the newly created dollars rapidly went into circulation. Cochrane asks, “Is it at all a surprise that a year later inflation breaks out?”

CONCLUSION

President Biden deserves a failing grade on his economic policies, which have been pursued as if he has been oblivious to major economic principles and forces at work in the country and world. The Biden administration has been quick to shift blame for its policy failures.

President Biden has blamed the sharp rise in gasoline prices on greedy oil companies who have pursued profits at the expense of the driving public. Jeff Bezos, founder of Amazon, was on target when he publicly chastised the president for blaming oil companies for profiteering, chiding the president for “a deep misunderstanding of basic market dynamics.” He has been unwilling to recognize that the inflationary spiral that began in force in late 2021 had a tie to his (and President Trump’s) dramatic expansion

of deficit spending, along with an accompanying expansion in the money stock. But admittedly, he has been trapped by his prior failed economic argument: if he had conceded that monetary expansion was at the core of inflation, and his deficit spending was at the core of the monetary expansion, he would have undermined his insistence that the trillions in added federal expenditures during his first year in office were “cost free.”

When Putin began to threaten an imminent invasion of Ukraine in early 2022, President Biden made a dire search for sanctions to impose on Russia to deter an invasion, yet he refused to adopt policies that would reverse his early restrictive U.S. energy policies. Such a reversal could have increased the global supply of energy, which could have helped liberate European countries from their dependence on Russian energy supplies and freed them to agree to more punishing financial sanctions on Russia.

Perhaps President Biden held to his supply restriction in the United States (but not the world) because of his allegiance to the political left’s green agenda. Perhaps his reluctance to reverse his energy policies was tied to a simple political dictum: policy reversals are a political death knell, because reversals can expose policy mistakes. He never indicated that a policy reversal on U.S. energy production could undercut the Russian advance on Ukraine, because it could result in greater energy supply, lower energy prices, and lower state revenues that Putin could tap to impose his will on Ukraine and, possibly, other former Soviet Union countries.

No matter his reasons, President Biden’s record on economic policies suggests that he either learned very little in his Econ 101 course or has forgotten most of what he learned. His insistence that his trillions of added deficit spending, which the Fed largely monetized, has had nothing to do with the rising inflation rate would, by itself, put in grave jeopardy his grade in my introductory course and in those courses taught by most economics professors who are not beholden to partisan ideologies and politics. ■