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Bidenomics is a radical agenda

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Joe Biden won the US presidency promising a return to consensus policymaking. Three months into his term, it's clear his administration's actions are actually driven by a sharp departure from the consensus views that underpinned economic policymaking for decades.

The President's radicalism on everything from stimulus to the regulatory state has taken commentators who foretold "a return to normalcy" by surprise. In part, the urgency of the transformative proposals appears driven by the scarring experience of Biden's time as vice president, when Keynesians scolded the Obama administration for supposed timidity on the financial crisis stimulus, while progressives bemoaned a missed opportunity to get stuff done.

Yet the President's ambitious agenda also reflects the coming-of-age of economists in leftward-shifting university economic departments and think tanks. A new generation of scholars just do not share the assumptions of the economic mainstream that has dominated since the early 1980s. These new Democratic leaning practitioners are intent on turning the page on the supposed "neoliberal" consensus.

This is obvious in macroeconomics, where traditional maxims are being thrown to the wolves. I was taught that fiscal and monetary policy were (at best) stabilisation tools for dealing with recessions, that large budget deficits crowded out private investment, that monetary policy was best for managing demand-side collapses, that keeping inflation expectations anchored was hard won and easily lost, and that macroeconomic policy couldn't push unemployment below its structurally-determined "natural rate", at least sustainably.

Biden's team appears to reject almost all of this. His Council of Economic Advisers believes in using huge government spending to "run the economy hot". The US has seen stimulus bills totalling $2.8 trillion (£2 trillion; around 13pc of 2019 GDP) since December, despite the economy being projected to be just 2-3pc of GDP below its potential. Now the administration is proposing another $4 trillion in spending on infrastructure and the welfare state.

Behind all this huge ongoing support is the idea that macroeconomic policy is not "neutral" over time, because the economy is not self-correcting. Instead, state spending is seen as crucial to make up for persistent demand shortfalls. Yes, Biden's team acknowledges the likelihood of a near-term price level jump from all these macroeconomic injections. But it regards it as a temporary phenomenon that won't disrupt inflation expectations. In fact, it is intensely relaxed about the red ink flowing, seeing the risks of doing too little as far greater than doing too much.

It is not just new macroeconomic principles guiding decisions, however. Regulators in recent decades at least felt the need to justify new restrictions as correcting some market failure or passing a social cost-benefit test. Biden's regulators, in contrast, have been instructed to put more weight on distributional concerns, warned against deregulation and told they should fully account "for regulatory benefits that are difficult or impossible to quantify". Combined, this offers *carte blanche* to pass or keep any economic regulation, however unjustified by its costs.

Economists since the 1970s have considered high levels of labour market regulation damaging to employment prospects, with trade union friendly legislation thought to create a jobs market of "insiders" and "outsiders". Hence why US unemployment, though more volatile, tends to settle at lower levels than in Europe. The freedoms inherent in flexible hire-and-fire laws facilitate more entry-level job opportunities and flexible, gig economy work.

Biden's team, however, now sees his government's labour market role as rebalancing employer-worker power, rather than protecting job opportunities. Despite the US unemployment rate being extremely low pre-pandemic, Biden would impose a $15 minimum wage, collective bargaining arrangements with trade unions and the forcing of gig economy workers into employee status. Gone is the market economists' starting point of presuming a fairly competitive jobs market. Instead, government-created institutions are seen as a necessary corrective to pervasive employer power over workers.

A similar shift is true in competition policy, where for decades policy was attuned to a consumer welfare lodestar. Firms being very large or merging wasn't seen as a problem *per se* – it was the impacts of their behaviour on consumers' well-being that mattered. Yet Biden's appointments now suggest a regression to a neo-structuralist competition policy: one that sees large firms, particularly digital platforms, as having dangerous monopoly powers that harm competition, customers, and even democracy in less discernible ways.

Now, this all forms a more expansive vision of government economic omnipotence, justifying a greater claim on the private sector's resources. Yes, Biden wants to upgrade US economic infrastructure, from rail and road to broadband and water. But he would pay for much of this by sucking more money through higher business taxes and joining with other governments to form an international tax cartel to ensure capital can't flee. Government, in Biden's view, allocates resources to projects better to enhance social welfare than companies and investors.

What's more, the definition of what it is "essential" for government to provide is expanding. Biden's Democratic colleagues increasingly include childcare and elderly care in their definition of "infrastructure", implying the state must provide these important services. Add to this Biden going much further in embracing industrial planning than his predecessor, especially on climate change, and you have a proposed step break in the size and scope of government, undergirded by optimistic assumptions about the efficacy of the public sector.

It's true, of course, that all governments change economic policy. Elections, as they say, have consequences. President Donald Trump himself slowed the growth of the regulatory state, cut taxes and ramped up trade protectionism. The point is, with Biden's administration it's difficult to identify a major economic policy area where they are not proposing a profound shift from the status quo. And, in most cases, that shift is predicated on very different assumptions or stories about how the economy works.