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BIDEN'S TRANSFORMATIVE ECONOMIC AGENDA, TWO YEARS INTO HIS ADMINISTRATION

A AGENDA TRANSFORMADORA ECONÓMICA DE BIDEN, EM DOIS ANOS DE GOVERNO

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Introduction

Two years ago, when President Biden was just beginning his term of office, I wrote an article in *Lusiada Economia & Empresa*[1] defending the thesis that the Biden Presidency was truly transformative, representing a fundamental change in the economic philosophy and management of the US, that it marked the death knell of the last forty years of neo-liberal philosophy guiding the government's management of the US economy that began with President Reagan's famous January 1981 statement that "government is not the solution to our problems; government is the problem". The Trump Administration had already rejected much of traditional Republican orthodoxy by launching a massive COVID Relief package (the CARES Act), by attacking free trade and the benefits of globalization, and by increasing the federal debt by more than $7 trillion in four years. Certain of Trump's policies were clearly a precursor to the actions of Biden, but it was for the **Biden Administration to transform some of Trump's initiatives on the economy into practical reality**, and to go much further than Trump in increasing the role of government.

Now more than two years into the Biden Administration, **the evidence is convincing that Biden has led the US into a "post neo-liberal" order**. This paper will explore what is this new economic direction, what measures have been introduced exemplifying it, what are the risks encountered and what might be the economic and political consequences for the US and for the rest of the world.

In the election of November 2020, **the Democrats won, but barely**. Biden won the Electoral College vote, the only one that counts in US presidential elections, by 306 to 232 (it takes 270 to win the presidency), and the popular vote by 81.3 million to 74.2 million. If less than 21,800 voters in just the right proportion in three states (Arizona, Georgia and Wisconsin) had voted for Trump rather than Biden, Trump would have won the presidency. Viewed in this manner, the presidential election was decided by 0.000135% of the 158.4 million votes cast. This was an even closer election than 2016 when Trump beat Hillary Clinton by what was then considered the thinnest of margins. And it is easy to forget that although Trump lost the popular vote by more than 7 million votes, more people

1 *"The Biden Presidency - a transformative event in US History", Lusíada Economica & Impresa Série II, N° 30 (2021)*

voted for Trump than Biden in the aggregate of the 49 states (including Washington DC) other than California and New York.

The closeness of the 2020 election was also reflected in the results of Senate and House elections: the Democrats eked out a 50-50 split in the Senate, giving them the majority with Vice-President Kamala Harris wielding the deciding vote, by winning, against all odds, both Senate seats in traditionally red state Georgia and they only were able to secure a majority of 9 more seats than the Republicans in the House of Representatives. Very narrow majorities, as we saw in the functioning of the Democratic Senate in 2021-2022 and are witnessing in the Republican House in 2023, give enormous power to small minorities, whose vote on any issue is necessary to confirm the victory of the majority of the Party in power.

In spite of these thin majorities Parties, **Biden embarked on an ambitious, multipronged program, the purpose of which was to transform America**. On balance, and notwithstanding difficulties, he has succeeded remarkably well in managing through the highly polarized extreme partisan divide to get much of his transformative agenda through Congress. To the surprise of many, he has enacted and put into law four major spending acts, two with enough bipartisan support to overcome the difficult hurdle of the filibuster in the Senate, and two where without any Republican votes in the Senate, he was able to mobilize the support of all 50 Republican Senators. The four Acts are described below:

The $1.9 trillion American Rescue Plan Act ("ARPA"): When Biden came into office in January 2021 the American economy was reeling from the effect of COVID-19. GDP had fallen by 2% in the last quarter of 2020, unemployment was at 6.7%, nearly twice the pre-pandemic level, and job growth was a negative 140,000 in December 2020. Biden presented a mammoth $1.9 trillion COVID-19 Relief Package which was passed by Congress without a single Republican vote and signed by the President into law barely two months into his Administration, in March 2021. It was the first bill passed by the Biden Administration under "Reconciliation", a procedure that allows passage of legislation in the Senate with a simple majority, thereby circumventing the problem of needing at least 10 Republican Senator votes to overcome the filibuster in the Senate (in the House of Representatives, a simple majority always applies to pass legislation). But Reconciliation imposes strict constraints: it is limited to revenue, spending and debt limit items and it can be used only once per fiscal year per category, which means that Reconciliation bills tend to be huge, with the majority Party putting in as many different chapters as they can into a mammoth bill, which was certainly the case for ARPA, which provided enormous financial payments. Biden no doubt drew lessons from Obama's $787 billion economic stimulus package to pull the US out of the Great Recession of 2008-2009, which he negotiated as Vice-President and which was heavily criticized at the time by Republicans as too large but which was later viewed by many as not large enough, as it led to a slow recovery that took years to work through the economy.

We cannot say that Biden's initiative in pumping money into the economy to combat the impact of COVID was a radical transformation, Trump had already launched in 2020 the largest emergency relief bill in US history, the $2 trillion CARES Act, that included $500 billion to large corporations. The US was not unique in recognizing that the severity of the crisis caused by the pandemic required enormous, direct government intervention. In contrast to the Trump initiative, Biden's $1.9 trillion ARPA gave nothing to large companies, spreading its resources to individuals, small businesses and state and local governments and adding an important social dimension by temporarily expanding child tax credit. With ARPA, it is fair to say that Biden followed the same overall pattern set by his predecessor, the two Administrations both provided for massive government involvement to combat the impact of the pandemic through generous fiscal policies, paying large amounts directly to citizens, to businesses and to state and local administrations. In terms of governing philosophy, the crisis caused by COVID engendered a movement solidifying the legitimacy of massive government involvement in economies throughout the world.

The $1.2 trillion Infrastructure Investment and Jobs Act ("IIJA"): This was Biden first major piece of legislation passed in November 2021 with some bipartisan support (the Bill could not have been passed without the 19 Republican Senators who voted for it, 30 Republican Senators voted against it, only 13 Republican House members voted for it while 200 voted against), and it serves as a good example of Biden's ability to "reach across the aisle" in Congress. It also reflected the change of mood in US politics, permitting Biden to move forward on a massive new Government funding initiative. Both Parties have for years recognized America's need invest to repair and modernize its crumbling infrastructure, the only workable solution appearing to be for the Federal Government to launch a large infrastructure bill, but continued conservative resistance to such a project, consistent with the "anti-big government" attitude of past Administrations meant that it was only in 2021 that sufficient support could be mobilized by President Biden to get a major infrastructure bill through Congress. The IIJA provided for a huge $1.2 trillion expenditures over eight years, for multiple investments in transport (highway, roads and bridges, rail, public transport systems), broadband access, clean water, sewage systems, the national electrical grid, airports, protecting against cyber attacks and weather disasters, clean energy production and transmission, treatment of abandoned mines and oil wells, electrical charging stations, the list goes on. The monumental scale of investments represents the largest federal expenditure in history in most categories and will increase dramatically the involvement of the federal government at the local level, in nearly every county in the country.

The project meets an immediate need, the deterioration in US infrastructure is well documented, a major improvement in infrastructure is something that will impact the lives of most Americans. For example, the American Society of Civil Engineers claims that over half of all US roads are in poor or mediocre condition, costing drivers nearly $130 billion per year in excess repair and operating costs (nearly 230 million Americans have a driver's license). Which gives credence to the idea that Biden's economic agenda is also deeply political, operating at multiple levels: it aims to create middle class jobs, to improve the plight of low-income Americans including Blacks and Latinos that typically vote Democratic but also to **show all Americans that a Democratic Party led government can truly improve their lives**.

Many political commentators agree with the assessment that since 1980, both the Democratic and Republican Parties have ignored the plight of the US Middle Class, who have seen their income stagnate for decades, with virtually all the benefits of growth going to the lowest income classes and even more predominantly to the rich. Many of these persons have become disaffected, disappointed and disillusioned with both traditional Parties, and have been easily attracted to an outsider, anti-establishment figure like Trump. Biden understands this, and one important element of his economic agenda is to seek to attract to the Democratic Party the disaffected Middle Class, many of whom are now part of the Trump electorate.

Some Democrats feel their Party has lost its way by becoming overly concerned with cultural issues and with defending the rights of minorities such as the LGBTQ community, this has led to their losing a large portion of the non-college educated middle class to Trump and the Republican Party. Political logic should be the opposite; the economic agenda of the Democratic Party is more in line with the interests of the US Middle Class than the Republican Party, the latter being typically viewed as defending the interests of the rich. By directing many of the economic advantages of his program to the US Middle Class, Biden's agenda is to permanently change the political landscape of the country in favor of the Democratic Party.

Various estimates have suggested that the IIJA will generate from 650,000 to 1 million new jobs[2]. Tony Carnevale of Georgetown University Center on Education estimates that 70% of these will be filled by people who didn't go to college, we can assume many will be Trump voters. Mark Zandi, chief economist of Moody's Analytics believes that the jobs created will average about $70,000 per year and will boost the rural economy, an area of the country heavily biased to the Trump electorate. Biden will put forth the political message that it is only the Democratic Party that was able to get an infrastructure bill passed, to the benefit of all, including voters in the Republican base.

In addition, Biden's IIJA focuses on addressing economic inequity, unionization and climate initiatives, all of which are important to the Democratic Party

2 Much of the information in this section comes from the Washington Center for Equitable Growth article, "Why the Infrastructure Investment and Jobs Act is good economics" by Michele Holder and Shaun Harrison, June 30, 2022.

base. Estimates have been made that up to 10 million US households do not have safe drinking water and 30 million people are estimated to not have access to broadband connection. According to one government study, lack of clean drinking water disproportionately affects Black, Latino and Indigenous persons. In a US Department of Housing and Urban Development study, only 41% of adults in households with incomes of less than $20,000 had broadband access, while 90% of adults with household incomes higher than $100,000 had it, whereas another study indicated Southern rural county Black residents had twice as many persons with no access to broadband as compared to White residents in the same county. It is likely that investments from the IIJA will provide greater benefits to lower income Americans, who generally vote Democrat, so Biden through this initiative is clearly strengthening one of the Democratic Party's principal constituency.

One additional significant characteristic of the IIJA is the commitment that the investments be spent on American products made by American workers, a clear protectionist flavor. The US Federal Government has for years favored domestic content, for example for much of its enormous military expenditures, but both Parties have over the last 40 years strongly defended free trade and the benefits of globalization. **Not any more**. The ILJA clearly marks a turning point in the leadership that the US has provided over the past half century in promoting free trade. Biden Administration tax dollars are going to be spent in the US, buying US products with significant consequences for the rest of the world, who will find themselves increasingly cut off from selling to the US Government from non-US sources. Already, a number of close allies of the US have complained that they are being excluded from the US market, in violation of WHO rules. In vivid contrast to his predecessor, Biden will listen politely to their criticism, there will be much less acrimony in the tone as compared to Trump's aggressive "America first" mantra, but the fundamental message will be the same, it will be "Protectionism with a Smile", but protectionism nevertheless, and it is virtually certain to lead the world to a period of increased nationalism in the management of international commerce in the coming decade, and increasing tension between the US and its close allies. The losers in this game will be developing countries, but also Europe, the largest trading bloc in the world.

The $280 billion Chips and Science Act ("CSA"): The CSA is the second major piece of legislation that Biden passed with small bipartisan support: 17 out of 50 Republican Senators voted for the SCA, with 24 Republican House members voting for it as opposed to 187 who voted against the Act. In a sense, it is the most radical legislative act passed by the Biden Administration to date, as it pushes the US government into active and direct *dirigiste* industrial planning and policy, a surprising echo of the methods used by centralized planners, be they in France during the era of President de Gaulle or China today.

The CSA, passed in August 2022, was very much couched as an answer to the challenge posed by the rise of China. Only 12% of semiconductors used in the US are manufactured in the US and the country is heavily dependent on Taiwan for the most advanced chips - 90% are produced by Taiwan Semiconductor Manufacturing Company. It is the concern shared by Democrats and Republicans that the US is very vulnerable to the risk that China might invade Taiwan and control the advanced semiconductor market essential to the US that made passage of the CSA possible. The problems represented by this external supply chain dependency were underlined during the global semiconductor shortage in 2021 and 2022, when production of many products, including cars, had to be reduced because of the dearth of semiconductor chips.

About \$106 billion of the \$280 billion CSA value is allocated to research and production projects in semiconductors and telecommunications, including \$39 billion in direct subsidize for companies to build new semiconductor production plants in the US, aiming to reduce US dependence on foreign suppliers, especially in Asia. The response of the private sector to the CSA has been quite positive, since its announcement, companies have committed to build or expand US manufacturing plants to the tune of over \$300 billion. We may note that Europe has also woken up to the same risk, the European Union has unveiled a €43 billion project to produce 20% of the world's semiconductors. Semiconductors have become a major element of geopolitical rivalry, or cooperation.

A second major objective of the CSA is to promote growth in productivity by instituting the largest 5-year federal funded scientific R & D program ever, to dramatically increase US basic research by allocating \$174 billion to areas other than semiconductors and telecommunications. Estimates have been made that 85% of productivity growth comes from technological advances, the result of investments in research. Although the US spends more than any other country in research, U.S. federal government R&D spending as a percentage of GDP is near its lowest point in 60 years. "The majority of federal R&D funding is used to conduct...basic research that focuses on the advancement of knowledge, and applied research that focuses on solving specific practical problems. In contrast, R&D spending in the private sector tends to focus on the development of specific products and processes...Over the past two decades, roughly half of all federal research funding was for life science, 80 percent of which was appropriated to the National Institute of Health"[3]. The CSA was structured to reverse the trend of reduced R & D investment (the downward trend was accelerated during the Trump Administration), significantly increasing federal funding of basic scientific and applied research and diversifying the investment into many new high-tech areas. It will also create multiple new technology hubs around the country, favoring underrepresented populations and locations. Through tax benefits and other incentives, the CSA is a major industrial policy program for the US to take or maintain the lead in a wide variety of high-tech areas. Among the

3 From a Goldman Sachs report on US Science quoted in an AEI article *"US Federal Research Spending is at a 60-year low. Should we be Concerned?"* by James Pethokoujis, May 11, 2020.

areas covered are included large amounts of money for NASA in preparation for a human mission to Mars or reducing the environmental effects of aviation or exploring nuclear propulsion for spacecraft, advanced research in many zero-emission mass market technologies including in virtually all of the potential new methods to produce energy, improved climate science research, investment in Science, Engineering and Math (STEM) education, improved defenses against foreign intellectual property infringement, supercomputers, nuclear fusion, etc., the mammoth research bill covers an incredible array of subjects.

One of the consequences of the creation of multiple new research centers will be an accelerated effort by the US to attract outstanding scientists from around the world, offering them remuneration that will be difficult for others to compete against. This US initiative will probably attract many top European minds, draining Europe's capabilities to maintain leadership in many areas of fundamental research and contributing another chapter in what is likely to be an increasingly strained relationship between the US and its European allies.

The about $800 billion Inflation Reduction Act ("IRA"): Passed with zero Republican votes in August 16, 2022, this Reconciliation bill is the fourth chapter in the major spending bills passed by the Biden Administration. It is the pared down version of a more ambitious Build Back Better Act initially proposed by Biden, which included $3.5 trillion in social and climate change expenditures. It is with this bill that the vulnerability for the Biden Administration of having to deal with a 50-50 Senate became the most apparent. Knowing that not a single Republican Senator would vote for it, they needed the vote of every single Democratic Senator, and at least two Senators, Joe Manchin of West Virginia and Kristen Sinema from Arizona were opposed to a large majority of the social expenditures in Build Back Better. This led to long, drawn-out negotiations between Senate Majority Leader Chuck Schumer and Senator Joe Manchin of West Virginia, to produce a smaller, but still enormous bill, with many of the climate initiatives and some of the tax increases but few of the social programs Biden had hoped to include. The IRA is divided into sections that will generate revenues or savings and sections that will entail new expenditures or lead to a net reduction in the federal deficit.

Among the provisions generating resources are included a gradual right for Medicare to negotiate lower prices for prescription drugs, a subject that has in the past been blocked by effective lobbying by the pharmaceutical industry, a new 15% minimum income tax for companies with more than $1 billion in annual financial statement income, improvement in tax enforcement, a 1% tax on corporate stock buybacks and an extension of a tax cap on business losses. About half of these federal budget savings ($391 billion) will be invested in energy security and climate change programs, a huge federal investment to bring the US closer to its commitments made under the Paris accords. Significant amounts will also be applied to fund healthcare subsidies, to lower the cost of prescription drugs including putting a cap on the cost of insulin and to provide financing to improve tax collection by the Internal Revenue Service. The largest part of the remainder will be applied to reduce the federal deficit.

There is considerable disagreement on whether the politically named Investment Reduction Act will in fact contribute to reduce inflation, the non-partisan Committee for a Responsible Federal Budget (CRFB) as well as Moody's Analytics believe the IRA will reduce inflation whereas the non-partisan Congressional Budget Office (CBO) estimates the IRA will have no statistically significant effect on inflation, but the CBO believe it will reduce federal deficits by $238 billion over a decade whereas the CRFB estimate the deficit reduction impact of the IRA will be $1 trillion over two decades.

The IRA continues the Biden Administration's protectionist bias, for example by making subsidies for electric cars only applicable to the purchase of cars assembled in North America. Finance Ministers from 27 European countries have said they consider many clauses in the IRA could be in breach of World Trade Organization rules, posing a threat to European industry.

Background to the new post neo-liberal agenda: Three of the above-described bills, IIJA, CSA and IRA together comprise a huge federal financial commitment to climate change: "it is not just the sheer volume of spending, but its strategic application that could be transformative. In a sense, the CSA is the "brains" of the operation, dedicating billions toward the cutting edge research and development needed to accelerate innovation in emerging clean energy technologies. The IIJA is the "backbone," providing much of the infrastructure these technologies need to scale at speed. Finally, the IRA is the "engine," driving investment growth through demand-pull measures that provide the security for these technologies to reach market maturity. Significantly, each bill is suffused with an industrial policy perspective that strategically prioritizes key industries while maintaining a technology-neutral approach".[4] The need to combat climate change has become mainstream in the US, there is broad public support for these government initiatives, which would not have been possible even a few years ago.

It is an exaggeration to suggest that Biden is the first president to pump massive amounts of federal money into the economy, George W. Bush in 2008 bailed out GM and Chrysler and committed $700 billion in government funding in the Troubled Asset Relief Program to save the country from financial meltdown, Barack Obama followed with his $787 billion economic stimulus package and we have seen that Donald Trump agreed to a $2 trillion CARES Act, but each of these major programs was passed by Congress in a moment of national cri-

4 From an article published by the Rocky Mountain Institute, "Congress's Climate Triple Whammy: Innovation, Investment, and Industrial Policy" by Lachlan Carey and Jun Ukita Shepard, August 22, 2011.

sis, with a major, short-term threat if the Federal Government did not intervene, massively and immediately.

None of the above-listed Biden huge financial initiatives were in response to an immediate, short-term crisis, and the last three are not really in response to any immediate national crisis, rather they reflect the Biden Administration's agenda, to substantially change the structure of the US economy, relying on federal government funding, in conjunction with private enterprise, to effect this change.

Of course, like all major changes, the ideas of the post neo-liberal Biden agenda did not appear out of nowhere, in a vacuum, there are always earlier factors that prepare the terrain, so when transformational events come, they almost seem natural. In addition to the shift in attitudes toward climate change, we can point to four important sources contributing to this new economic philosophy: a) the Great Recession of 2008-2009, b) the rise of China, c) COVID-19 and, perhaps most significant, d) the presidency of Donald Trump.

a. The worse economic downturn in the US since the Depression in the 1930's, the Great Recession of 2008-2009, not only showed glaringly the failure of the previous economic model, it also required massive government intervention to save the US auto and financial sectors and to pump money to revive a faltering economy, involving the government in private sector activity on a scale unheard of in the previous 70 years.
b. One of the few areas where Democrats and Republicans agree is in the threat posed by the rise of China. It is interesting to note that the US reaction to this threat is in part to copy the Chinese model, pursuing aggressive, government-led nationalistic management of the economy.
c. COVID-19 led to direct government involvement in the economy in much of the world, the US was no exception, the magnitude of the threat posed by the pandemic led to governments' putting economies into "induced comas" to reduce the spread of the disease, at enormous cost, and then pumping massive amounts of money to awaken the patient, to put the economy back into normal activity, again accepting that the requirement that to deal with such an enormous crisis, the solution required "big government".
d. It is tempting to describe the change in government philosophy as the "TrumpBiden Transformation". It was Trump more than anyone who changed the US attitude towards China, insisting that China was a serious threat, and Trump flaunted Republican economic orthodoxy by turning against free trade and also by accepting huge increases in government debt. In addition, Trump's surprising victory in the presidential election of 2016 showed the Democratic Party had lost touch with much of the US Middle Class, a lesson Biden has no doubt learned. But even if Trump's presidency was a precursor to this change in governing phi-

losophy, the Trump Administration did not carry out the change, this has been left to his successor, Joe Biden.

Will Biden's Agenda be Successful? Irrespective of the multiple causes, Biden is taking a major gamble in launching his multipronged agenda. He is betting or perhaps we should say hoping:

- That federal bureaucracy can be reasonably efficient in working with the private sector and implementing the numerous, multi-billion-dollar projects his Administration has launched, in other words that the Government can mobilize the human and management resources and the competence to fulfill its part of a huge increase in programs. It does not have the necessary resources today, will it have them tomorrow?
- That implementing massive climate change actions can be positive for the economy, for example by driving down the cost of energy, that sustainable, non-carbon-based activity can be competitive with existing processes, thereby promoting economic growth as opposed to putting a brake on the economy,
- That the US can manage the threat from China, not lose out in the rivalry and gradually partially disengage the closely linked US and Chinese economies without doing a great deal of harm to both,
- That his and future Democratic Administrations can in implement these new policies create millions of reasonably paying jobs and thereby bring the US middle class back into the mainstream of growth,
- That protectionist measures taken by the US will not completely undermine the multilateral trading system overseen by the World Trade Organization, turning the world into blocs of protectionist enclaves in rivalry one against the other in lose-lose struggles, with the resulting alienating of America's allies seriously jeopardizing US leadership in the world,
- That future Republican Administrations not dismantle the bulk of the projects he has launched, and
- That the American public will go along with these changes because they grow to understand that they benefit from them, and that the Democratic Party can benefit from these positive economic results.

There will be no clear-cut answers to the underlying question of whether Biden's agenda will be successful, it will take years to measure the consequences of the initiatives launched in Biden's first two years in office. We cannot discount the risk of a possible major backlash if these initiatives lead to very poor government execution of the multiple projects and possibly massive corruption. The Biden Administration will certainly try to push forward on the realization of these multiple programs over the next 22 months but given the enormous size and the timing of expenditures many of them will continue beyond the inauguration of a new Administration in January 2025. Whether that Administration is Democratic or Republican will have a big impact on the federal government's ability to carry out the Biden agenda, the **Democrats almost certainly need two four-year terms to successfully implement most of the programs**, so the result of the next presidential elections is particularly important.

Are the Democrats likely to win the presidential election of 2024? Of course it is too early to tell, in February 2023 the winds are currently blowing quite favorably for Biden: the Democratic Party did much better than expected in the Midterm elections of November 2022, giving a major boost to Biden's leadership, the high inflation that peaked in the summer of 2022 has declined every month for the past semester, and in spite of the Federal Reserve's aggressive increase in interest rates to slow down the economy, job creation has continued at a high pace, bringing unemployment down to 3.4%, the lowest level in more than 50 years, so things look pretty good right now, but the Presidential election of November, 2024 is far away and we see heavy clouds on the horizon for Biden.

What is the likely direction of the US economy between now and November 2024? Any economic forecast requires modesty, if the past 15 years serves as a lesson, it is that unanticipated events that radically change economic and political prospects are likely to occur. The evolution and possible spread of the war in Ukraine, new supply chain problems, health issues for major candidates, a major new international crisis, we cannot predict the future, which of course does not give us the right to shirk the responsibility to make projections based on what we know today.

The key question facing the current US economy is the future level of inflation and the action of the Federal Reserve in combating that inflation, in particular whether and how fast the current decline in the rate of inflation will occur and just how high and for how long the Federal Reserve will push and maintain high interest rates to combat inflation.

To begin to elaborate an answer, we need to review some recent history. We don't really know all the reasons why real interest rates have been steadily declining for most of the past 40 years (up until March 2022) but we have gotten used to low or even zero rates. And the historical link between inflation and unemployment seems no longer valid, as for example in the fall of 2019 unemployment declined dramatically to a 50-year low of 3.5% without the expected rise in inflation, leading the Fed in 2020 to announce that they would interpret more loosely the link between the two factors and no longer automatically raise rates when unemployment declined significantly.

Perhaps it was the change in policy that led the Fed not to begin raising interest rates in the fall of 2021, when the economy was heating up rapidly and inflation was rising. There was also a quirk in the calendar, Biden was considering whether or not to renew the mandate of Chairman Powell whose term was to expire at the end of 2021. Was the Chairman's hesitancy to raise rates in 2021 linked to whether or not he would be reappointed? He was in fact renewed by Biden in late November 2021, but the Fed began raising rates only in spring 2022. In Powell's defense, most economists and central bankers in 2021 weren't worried about creeping inflation, Western economies had avoided inflation for the past decade, and the rise in prices was closely linked to the impact of COVID. Governments had shut down economies, it was normal that prices would increase as economies came out of their "induced comas", but any price rises would be transitory.

We now know that they were wrong, inflation continued to grow, reaching in the US a scary peak of 9.1% in June 2022. One important economist had predicted this, the highly respected Larry Summers had been a contrary voice in the wilderness, noting that the Trump Administration had pumped $2 trillion into the economy with the CARES Act in March 2020 and the Biden Administration adding $1.9 trillion with ARPA in March 2021, with such huge payments generating a growth in demand and with the economy suffering severe post-COVID supply constraints, the only result had to be a rapid increase in prices. In retrospect his assessment proved correct, continued inflation forced the Fed to began finally to raise rates in March 2022, although timidly at first, then accelerating with rapid increases during the year to the last small 0.25% increase in February 2023, with Chairman Powell predicting that the Fed would continue through two more rate increases in the first half of 2023 and would maintain high rates at least to the end of 2023, "We will stay the course until the job is done."

Will Fed tightening create a recession, how deep and for how long? The Federal Reserve has a dual mandate: to keep prices stable AND to maximize employment - this in vivid contrast to the European Central Bank that has only the mandate to keep prices stable - so the Fed seeks to minimize the negative impact on employment of their increase in interest rates, avoiding a recession if possible or limiting it to a "soft landing", a mild and short recession. Inflation is now declining, one measure has it at 5%, the Fed has said they are aiming for 2%. Opinions are mixed as to when the decline in inflation will permit the Fed to invert its current posture and begin a decline in interest rates. The latest economic news has been good, the US economy experienced a stronger than expected annualized growth rate of 2.9% in the 4th quarter of 2022 and new job creation shocked everyone by reaching 517,000 in January 2023. But continued signs of a strong economy almost certainly means continued inflationary pressure, good economic news is in fact bad news in terms of the likelihood that the Fed will stop its push to slow down the economy.

I also consider we are in a period of particularly high uncertainty: we don't really yet understand the change engendered in human behavior and the full economic impact of the COVID pandemic, nor do we fully understand the consequences in the US and much of the rest of the world of the shift to a low or no-carbon world, we have no idea how long the war in Ukraine will last nor the possible inflationary impact of the Government expenditures in the Acts described in this paper, nor should we forget the impact of the rise of protectionism and increased regionalism, what appears to be a profound shift from a world where the critical variable was demand to one where the problem is more with supply, with governments throughout the world seeking to insure more secure and more local sources of supply, at probably greater costs and with continued supply bottlenecks. And we have not yet seen the impact on international commodity prices of the opening of China, surely this will contribute to additional supply constraints and an increase in international commodity inflation. And we must throw into this complicated mix our minimal understanding of the impact of new technologies. It was already very difficult to predict economic cycles before the rise of this exceptional combination of variables, it is clearly more difficult today. The Federal Reserve has, over the past 20 years, been generally good at understanding economic trends and intelligently managing monetary policy. Will this continue to be the case?

Wall Street thinks inflation will continue to subside quickly, that the Fed will begin backtracking and start lowering interest rates before the end of 2023. I don't agree. As they underestimated the rise of inflation in 2021 and 2022, I believe the Federal Reserve will lean over backwards not to be caught unawares again, they will continue to maintain high interest rates until they are absolutely certain they have tamed inflation, and I think this will mean a decline in interest rates not before well into 2024. Fed Chairman Powell has said: "No one knows whether this process will lead to a recession or, if so, how significant that recession would be. We have got to get inflation behind us. I wish there were a painless way to do that. There isn't."

The timing of the Fed's continued maintenance of high interest rates is critical, particularly in political terms. Interest rate hikes take months to work through the economy. If inflation remains stubborn through 2023 and the Fed does not begin to lower interest rates until well into next year, it is likely that the economy will be on a downward slope, maybe even in a recession, at the time of the Presidential election in November 2024, which would in all likelihood seriously reduce the Democratic Party's chances of winning the election. Democrats will hope that inflation will subside quickly, letting the Fed begin lowering interest rates at the latest by the beginning of 2024, with the possibility of a flourishing economy by the time of the November election.

Biden's Political Agenda: What about the chances that Biden can succeed in his ambitious desire to restructure over the medium term the political landscape of the US, with the Democratic Party making gains among independents and current Trump voters? This would mean on the one hand that Biden's transformative economic policies will have led to creating many jobs, higher productivity, higher growth and better distribution of that growth, including to the Trump electorate, and on the other hand, and much more difficult to achieve, that many Americans would give the Democratic Party credit for these results.

The Democrats are notoriously bad at selling their accomplishments. It is curious to note that Democratic Administration have over the past 100 years given the country better economic performance than Republicans, by almost any measure (GDP Growth, employment, productivity, stock prices) yet the majority of Americans are convinced Republicans are better at managing the economy than Democrats. Will Biden improve on this poor record of marketing his accomplishments? Probably not, but in a country that is so closely divided, where presidential elections are won or lost by a few thousand votes, the Democratic Party needs only to attract a small number of swing voters to win elections.

But let us not exaggerate Biden's accomplishments, he has not addressed many of the basic problems faced by the US: Immigration, Police violence against Blacks, continued racism and the demands of the "Black Lives Matter" movement, exaggerated military spending that Americans seem viscerally attached to, what many believe is the excessive power of a few dominant technology companies, partisan gridlock reflecting a deep schism in the body politic and in the nation with the corollary risk of domestic violence, gun deaths (Biden's modest gun control Act of June 2022 can hardly be considered a major advance in addressing the problem), drug addiction, and there are many other major domestic and international challenges to be faced.

Nevertheless, as we have seen, Biden has launched the US Federal Government in a new direction, clearly redefining the economic philosophy of the US to what I have called a "post neo-liberal" agenda, comprised of multiple concrete economic programs that take the US into new territory, possibly transforming both the economic and political domain.

Will he succeed in this massive, high-risk project? I suspect the answer is yes and no, he will accomplish a great deal, but there will be considerable resistance to this new direction. I am nevertheless hopeful, and cautiously optimistic that there will be no turning back, that over the medium term the initiatives started by Biden will bear fruit, will strengthen the US, allowing it to maintain its world leadership. If I am right, irrespective of whether Biden is re-elected in November 2024, his tenure as President will in due course be considered by historians as truly transformative.