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THE BIDEN PRESIDENCY – A TRANSFORMATIVE EVENT IN US HISTORY

A PRESIDÊNCIA DE BIDEN – UM EVENTO TRANSFORMADOR NA HISTÓRIA DOS EUA

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Abstract: The central thesis of this paper is that the Biden Presidency is likely to be truly transformative, with President Joseph Biden presenting an aggressive agenda to take advantage of an exceptional moment in history when myriad causes have come together to make it possible to fundamentally change the economic and political narrative of the United States, and by association, of much of the world,. This new direction will mark the end the 40 years of economic philosophy initiated by the Reagan presidency and introduce a period of more active government involvement in the economy, echoes of the Roosevelt New Deal. We show the reasons this new approach is possible, its likely economic and political successes or failures and their likely consequences.

Keywords: Transformative economy; new agenda; New CoViD approach.

Resumo: A tese central deste artigo consiste em admitir-se que a administração Biden será essencialmente transformadora, contribuindo para mudar a narrativa política e económica nos EUA e em grande parte do mundo. Esta nova tese poderá narrar o fim de 40 anos de uma filosofia económica iniciada pela presidência de Reagan, avançando-se para um período de maior intervencionalismo do governo.

Palavras-chave: Economia transformativa; Nova agenda; Nova abordagem do CoViD.

A. Introduction: The central thesis of this paper is that the Biden Presidency may be truly transformative, taking advantage of an exceptional moment in history when myriad causes have come together to make it possible to fundamentally change the economic and political narrative of the United States, and by association, of much of the world.

In normal times the President of the United States has less impact on the economy of his own country, without talking about the entire world, than is frequently assumed. A serious argument could be made that the Chair of the US Federal Reserve, currently Jerome Powell, has more direct influence on the direction of the US economy than any president. And both of them together may well be less important than the swings of economic cycles over which they have little say, which may well have started before they came onto the scene, and will continue after their departure.

But these are not normal times, the US and the world are in the midst of the worst health crisis in at least a century, and governments have created what economist Paul Krugman refers to as “induced comas”, unprecedented restrictions in economic activity to combat the pandemic, with devastating consequences on substantial sectors of the economy. In the midst of these difficulties, the United States had a presidential election, with a changing of the guard at the top of the US government, moving from a president who underplayed the negative consequences of COVID to one who readily admitted the difficulties the country was facing, and proposed a plan to overcome them.

Biden has identified two first priority, dominant domestic challenges: a) Ending the pandemic, and b) Repairing the economic damage stemming from government actions against COVID. He has also said his next immediate priority will be launching a program of major investment to update America’s decrepit infrastructure.

Not far behind in priority are a slew of other challenges, including the deep schism in American society revealed by the “Black Lives Matter” movement, the profound risk to the US and to the world of Climate Change, the pernicious effects of the spectacular rise in inequality, the deep split in American society with its corollary risk of domestic terrorism, the apparent fragility of Democracy, be it in the US or elsewhere with increasing voices attracted by an alternative autocratic system like the successful Chinese model, the hollowing out of the American middle class with virtually static income in this group over the last thirty

years and the consequent questioning of the benefits of globalization, partisan gridlock that has characterized the US political system for the last decades, the difficult issue of immigration and illegal immigration in the US, what many believe is the excessive power of a few dominant technology companies, and we can add others, the list of profound domestic challenges appears endless.

As of this writing, we are less than 10 weeks into the Biden Administration, it is obviously much too early to judge its impact. Let us accept that whatever is predicted in this paper must be considered very tentative, tempered by a strong disclaimer that there are many moving parts in the political and economic horizon that have not yet begun to settle, that unexpected events are certain to happen, and that we do not really know what the four years of the first Biden Administration will bring, much less are we able at this stage to accurately judge the long-term impact of the Presidency of Joseph R. Biden. Nevertheless, we will try to present an argument defending the central thesis of this paper.

After this Introduction, the first section of this paper presents the reasons for which Biden transformative agenda has become possible in the US of 2021. The second explains in summary how the US political system works, what is required to enact significant new legislation, and how likely it is for the Biden Administration to get their agenda passed into law. The third is a brief description, based on what we know today, of the Biden Administration economic package. The two following sections presents the economic and political risks as “bets” that Biden hopes to win, and the final section is a short comment on the possible impact of the Biden programs on the world. A brief Conclusion closes the text.

B. What makes the New Biden Agenda possible: In the face of the overwhelming list of daunting problems facing the US, the Biden/Harris Administration has made its intentions quite clear: an incredibly ambitious agenda, a multi-faceted set of plans and programs addressing challenges on virtually all fronts, starting with a two-pronged frontal assault to first provide RELIEF against the pandemic and then a package to stimulate RECOVERY, with the parallel aim to profoundly transform the US economy, making it more sustainable and more equitable. The first chapter is an enormous \$1.9 trillion COVID Relief Bill, surprising by its massive size, about 9% of GDP, enough to directly boost economic activity by 4% in 2021 and 2% in 2022, according to estimates by the Brookings Institute. The bill has already been successfully passed by Congress and became law on March 11 of this year, just over 7 weeks after the inauguration. Biden has also announced he will shortly propose another major economic initiative, one or more “Build Back Better” bills totaling up to \$3-\$4 trillion for investment in infrastructure and social transformation, and his Administration in concert with Democratic Congressional leaders have already pushed forward on several political/social subjects: immigration, voting rights, gun control, with many other subjects to come.

In addition to the enormous scale of the proposed economic measures, what is striking about Biden's program is that it embraces economic nationalism, very similar to what Trump was proclaiming the country should adopt. Without openly rejecting globalization, the Biden agenda clearly speaks of "buying American", an industrial policy promoting American sourcing of investments to renew infrastructure and to control the supply chain, to be built in the US.

This remarkable agenda represents a radical deviation from the approach we are used to hearing from US presidents, probably the most significant change in US economic policy since Ronald Reagan, signaling a fundamental modification of the economic philosophy of the Democratic Party and, possibly, of the country. Since the early 1990s, both American political parties have subscribed to an orthodoxy i) promoting free markets, including international markets fostering globalization, ii) with minimal interference from a government that should be small and iii) must maintain fiscal austerity. The Democratic Party joined Republicans in believing that the laws of economics warrant that market competition should be allowed free reign, even those who considered themselves social democrats bowed to the mantra of free markets and it was Bill Clinton who freed the finance industry from the limitations in place since 1933 when he signed the repeal of the Glass Steagall Act in 1999. Encouraged by the breakup of the Soviet Union after the fall of the Berlin wall in late 1989, both political Parties believed that the benefits of the free market capitalist system and globalization would bring not only economic benefits to the US but also foster the rapid expansion of democracy as well as free market economies throughout the world. And none of this would require any major government intervention. It was Democratic President Bill Clinton who stated in 1996 "the era of big government is over", an echo of Reagan's famous January 1981 statement that "government is not the solution to our problems; government is the problem". Perhaps it was not surprising that the only time over the last 50 years that the US Federal budget was in surplus was during a Democratic Administration, President Bill Clinton's second term.

Suddenly, in 2021, we have a Democratic President proposing that the Federal Government guide an industrial policy and spend and borrow on a scale unseen since World War II.

And the unlikely person to symbolize this major change of direction is the previously moderate, 78-year old Joe Biden, whose initial attraction to voters was his return-to-normalcy campaign after the unsettling whirlwind of his Republican predecessor. How can it be that a mild-mannered, clearly middle-of-the-road politician is the architect of a radical change in US Government, that some have compared to that launched by Franklin D. Roosevelt? What has happened to make such a departure from thirty years of conservative economic orthodoxy even conceivable? We can identify numerous major factors, each an important contributor to the potential change of direction of the US:

1. The election in 2016 of Trump and the four years of his Administration;
2. The 2008-2009 financial crisis and the ensuing "Great Recession";
3. The effects of the COVID pandemic;
4. The rise of China as a serious rival of the US.

1. One could be tempted to describe the events we are witnessing as the "Trump/Biden Transformation"; it is undeniable that the election of Donald J. Trump in November 2016, which surprised everyone (including himself), marked a fundamental and as yet unrecognized turning point in the US and possibly the world, a clear sign that America was ready for a major change. Trump's brilliant political instincts had him hear and respond to the loud and clear message from the people who elected him, the American middle class, who had basically been abandoned by both Republican and Democratic Parties for decades. What was this message? Let us paraphrase it: "We want our President to represent the interests of Americans that have been ignored for years, the middle class who have not felt the full benefits of globalization, yes we have been able to buy more Chinese made goods at lower prices, but we have seen our income level stagnate for the past thirty years and our American dream of personal progress gradually disappear in the face of increasing economic difficulty." It is remarkable how much Trump's message was prescient, how his style and personality were perfect to seize the political initiative and mobilize people to follow him blindly. It is true that his abrasive, divisive and shocking manner turned off many people - rarely has a president been so despised - but we should not ignore that his populist message corresponded exactly to many people's needs.

Part of Trump's message also led to a change in attitude of economists, the government and the public towards international trade agreements, objects of his incessant, simplistic but effective criticism, focusing on the harm they did and putting into question the conventional view that globalization benefitted nearly everyone. He also engendered a major shift in the equally broadly shared view that active cooperation with China was to the benefit of the US (although this latter conclusion was already being questioned in the later years of the Obama Administration).

Trump said he would answer the cry for help of the American middle class by making a priority of promoting domestic manufacturing, by returning factories abroad to American soil, by improving the lot of the average American, in fact he did nothing of the sort. Because other than being incredibly talented at understanding the needs of ordinary Americans and mobilizing their faith in him, it turned out that this curious individual named Trump was perhaps the most incompetent president the US has ever witnessed, incapable of managing the enormous US government, and in spite of his remarkable ability to mobilize the white middle class, he accomplished very little: his only significant piece of legislation

was the Tax Cuts and Jobs Act of 2017, that did little to help the middle class. It did, however, get Republican voters to accept the idea of large budget deficits, a change that will no doubt not go unnoticed by the Biden Administration.

Part of the reason for Trump's failure as president to accomplish much was his divisiveness and the clearly racist, virtually white supremacist tone of his message. Was it necessary for Trump to stoke the worse divisive hatred of the other we have witnessed in the US perhaps since the Civil War? We will never know, we can only observe that this abrasive style fit perfectly with his personality, that the terrain was already fertile for Trump to mobilize people by stoking hatred, and that he accelerated and deepened the schism in American society, turning Americans against each other, leaving the country vulnerable to domestic terrorism and the uncertainty of a partisan and societal divide greater than Americans have seen in generations.

Trump's very aggressiveness has also brought to the fore several areas of political concern in the US, not always to his benefit, for example on the subject of Climate Change. Trump's withdrawal from the Paris Climate Change Agreement was opposed by a majority of Americans, focused attention on the general subject of Climate Change and reinforced the opinion of most Americans, including a majority of Republicans, that the government should take on a more active role in combating Climate Change.

We can observe several other evolving trends in the US during the four years of the Trump Administration including increasing concern in the corporate sphere with the concept of sustainability and the gradual erosion of the dominant view championed by Milton Friedman and religiously followed for the last four decades that the sole responsibility of companies is to maximize shareholder return. In 2019, the Business Roundtable, grouping 200 of the largest companies in the US, issued a statement that the purpose of a corporation was no longer solely maximizing shareholder value but rather taking into account the interests of various stakeholders: employees, clients, suppliers, the communities they serve and the protection of the environment. And in the primaries to select the Democratic candidate to run against then President Trump, the relative success of the campaigns of Bernie Sanders and Elizabeth Warren, defending ideas aspiring to greater social justice, proved that "socialist" concepts previously considered taboo had entered into the mainstream. Similarly, the huge accumulation of power and wealth of a small number of dominant companies, and individuals, has become increasingly subject to criticism and debate, both in Congress and in the public domain.

It is ironic that in seeking to revitalize American industry, Biden is aiming to deliver the unfulfilled promises awakened by Trump. Just as the election of Trump could not have been possible had Obama not preceded him, so Biden could not envisage the virtually revolutionary program he is proposing had Trump not preceded him.

Of course, even if there are important similarities in the assessments made by Trump and Biden of America's needs, the differences in their approach are stark: Biden is inclusive rather than exclusive, in a vision to benefit all Americans irrespective of race or class and with specific rejection of the overtly racial dimension of Trump's agenda. Another difference is that Biden is putting into place an Administration that is incredibly competent, relying on experienced hands at every level. And of course there is a radical change in tone and style, a respect for science, a search for truth, a willingness to listen, all of which have been absent during the four years of Trump. Will these characteristics, this new approach be sufficient to overcome the hurdles the Biden Administration faces in dealing with such a divided country, such a divided body politic left by the Trump Administration? It is too early to tell.

We may also note that Biden's inclusiveness will be just as present in his approach to international relations, he is a profound believer in multilateralism, he will repair relations with allies including rebuilding the Atlantic Alliance, embrace working with international institutions and work to create multiple alliances to deal with the problems of the world, for example in confronting Climate Change, with past Secretary of State John Kerry as his international emissary on this latter subject. Biden will also enlist cooperation with allies in dealing with the challenge of China's rise. But can President Biden's approach rebuild the trust in the US that had prevailed in relations with allies since the Second World War, a trust that was profoundly shaken during the hurricane of the Trump Administration? The question is rendered even more salient if, as appears likely, Trump remains present on the US political scene, including the possibility of running and conceivably winning the race for president in 2024¹.

There is no doubt that the impact of Trump's presidency raised Biden's populist sympathies, and at a minimum augured a change in attitudes in the US towards government deficit, toward globalization and free trade, that Biden will exploit to his advantage.

2. The second major factor to explain Biden's remarkable agenda is the 2008-2009 financial crisis, which led to the deepest economic downturn since the 1930's, the Great Recession which already had pushed the Republican Administration of George W. Bush at the time to undertake steps going against the grain of Republican orthodoxy, pumping money into the economy and virtually nationalizing a significant portion of the financial industry. The Obama Administration began in the midst of the economic crisis and responded to it by accelerating the intervention of government, bailing out the suffering auto industry and passing a Keynesian inspired \$831 billion stimulus bill, which might well

¹ In my opinion, ex-president Trump will gradually fade as an individual presidential candidate from the forefront of the political scene in the US over the coming months and years, and an issue that seems relevant today will no longer be important by 2024.

have been larger had President Obama not sought to get bi-partisan support for his agenda. To no avail, as virtually all Republicans in Congress voted against the bill, which they viewed as excessive. That legislation is now universally considered to have lowered unemployment, with its benefits having far outweighed its costs, but it is also generally recognized to have been too small, rather than too large. Then Vice-President Joe Biden was a major actor in these efforts, he witnessed first hand that the more than \$2 trillion spent by the Bush and Obama Administrations led to one of the most anemic recoveries ever, it clearly had not been enough to promote growth, and he also witnessed the political damage suffered by the Democrats in Obama's first mid-term election, certainly in part due to his Administration treatment of the Great Recession. Surely Biden's experience of this period is influencing his approach to the current crisis.

The Great Recession also laid bare that even though globalization over the previous thirty years had produced lower costs for all and considerable economic gain for a few, it increased in the US the vulnerabilities of a large segment of the population and also substantially contributed to the growth in inequality, the gap between rich and poor. As longtime Biden friend Senator Chris Coons of Delaware has said "a lot of the harm [of globalization] has been unexpectedly broader, sharper, deeper... [Biden] believes we need to change direction..."

It is also clear that the aftermath of the Great Recession changed the fears aroused by government deficits among economists, politicians and the general public, these are much less prevalent in 2021 than they were in 2009-2010, in part because of the absence of inflation during the intervening years and also as a result of the Trump Administration's nonchalance towards the deficits their spending and lowering of taxes produced, in strong contrast to conventional Republican Party orthodoxy.

This change is also exemplified by the gradual evolution in policies of the US Federal Reserve, a reflection of observed economic trends during the Trump Administration. As the Fed saw the economy finally come out of the Great Recession in 2018, it initiated a classical small increase in interest rates in anticipation of expected price increases. But the rise in inflation never came, so the Fed changed directions and lowered rates in 2019, watching carefully, expecting that the rate of inflation would rise as the rate of unemployment fell down to an exceptional 3.5%, which many economists believed was below "full employment", a level in principle triggering inflation. But contrary to prediction, inflation never appeared, even at a minimum desirable level, contributing to growing evidence that the link between the unemployment rate and inflation is less direct and precise than previously thought. Partially as a result of these developments, the Fed has indicated a more flexible approach to the management of interest rates and the monetary supply. The Chair of the Federal Reserve, Jerome Powell, recently went so far as to say that more fiscal stimulus would probably cause "some up-

ward pressure on prices” but forecasted it “will be neither large nor sustained,” basically giving a green light to Biden’s \$1.9 trillion COVID Relief Bill.

3. The third and obvious factor we need to include in our list of major influences on the Biden Administration is the impact of COVID health crisis which has required, and justified, massive government involvement, in virtually every country in the world, leaving far in the distance the echoes of Reagan’s call for the least government intervention possible. On the contrary, the exceptional crisis created by the pandemic forced governments to intervene, with huge government efforts contributing to a fundamental change in attitude towards the appropriate role of government, by both the political realm and the general public, justifying generous fiscal policies, and giving credibility to the radical proposals from the Biden Administration, which could not have been imagined even a few years ago. Biden also knows, of course, that his Administration will be judged by its success in overcoming the pandemic, another reason to launch a massive package.

We may also note, although we have no concrete figures, that many Americans criticized Trump for his handling of the health crisis, no doubt contributing to the 7 million more votes received by Biden rather than Trump.²

4. Last on the list of major influences is the perceived threat to the US of the rise of China, certainly not the least important factor in the change of thinking in Washington and the willingness to pursue aggressive, nationalistic management of the economy. One of the few areas where the Biden Presidency will in large part follow the strategy of the Trump Administration is in considering China as a serious rival. America has become mesmerized by China, in part believing that China unfairly took advantage of the free market conditions offered to it in the last decades of the Twentieth Century, without playing by the rules, and it seems clear that pressure from the US and others to get the Chinese government to “play fair” have not been nor are likely to become successful, resulting in the perception that America has to modify its earlier behavior towards China.

In addition, China’s success in its industrial policy, building up major Chinese companies by providing enormous government support to leading compa-

² There is some disagreement as to whether Biden won the election decisively, as reflected in his 7 million advantage in the popular vote, or by the thinnest of margins, as reflected in the Electoral College result, which is how America chooses its presidents. Because of this curious and undemocratic system, had only 21,500 votes in Arizona, Georgia and Wisconsin gone to Trump rather than Biden in the November 2021 election, the outcome would have been different. This election was incredibly close, even closer than the 2016 election of Trump over Hillary Clinton, with 0.000135%, or 1.35 votes per 10,000, having decided the Biden Electoral College victory. Had the Coronavirus not rendered impotent the argument that Trump would have made to the American electorate that he had created the “greatest economy ever”, with the highest stock market and the lowest level of unemployment in more than 50 years, we cannot guess what the outcome might have been.

nies in specific industry sectors, prompts the US to follow suit: China's success is effectively forcing other countries to adopt some of its own industrial policies. The rise of China, not only as an economic power but also as a military and geopolitical power, is viewed by America as the greatest threat for the next decades, heavily contributing to America's willingness to abandon decades of adherence to total free-market orthodoxy to meet this threat.

Although there are strong similarities in the Trump and Biden Administrations' view of China as a major threat to the US, the latter appears less inclined to attack China but rather to strengthen the US, the "Build Back Better" projects aim to confront the threat of China with successful US policies. And of course this requires active government intervention to promote US progress.

Surely we are not going to be tempted to say "Thank Goodness for COVID!", what a terrible thought, but it is nevertheless clear that the COVID pandemic and the other factors detailed above have provided an exceptional opportunity for a huge experiment, a major shift, which the Trump presidency may have forecast but which he was incapable of initiating or managing. Rarely has there been a more propitious moment to link the word "crisis", with "opportunity", and President Biden appears fully committed to taking advantage of this exceptional moment in history represented by the series of crises facing the US in 2021, to fundamentally change the direction of the US economy with the intention to permanently set the domestic economy on a trajectory of higher growth, with the government taking a predominant role to address inequality and racial injustice, and the challenges of climate change and sustainability.

C. Can Biden Make it Happen? How the System Works: In spite of the many reasons identified above that makes Biden's transformative agenda conceivable, we know from the past decades of gridlock in Congress that the party out of power, in the current case the Republican Party, has typically blocked virtually all new legislative initiatives from the Party in power. Is there any reason to believe Biden can be more successful than his recent predecessors in implementing a major new economic and political/social agenda? To assess this possibility, we need to understand how the US Government works, how legislation is passed in the Senate and House of Representatives.

The Founders provided for a cumbersome procedure to make new laws: a proposal for a new law must originate in the House of Representatives or in the Senate, although the process of preparing a new law has generally involved the Executive Branch in coordination with Congress. Once a legislative proposal is introduced to one chamber of Congress, it has to be agreed to by both the House of Representatives and the Senate and then it has to be signed by the President to become law. In the rare cases where both chambers pass an article of law that is opposed by the President, cases referred to as a "Presidential Veto", the text

can become law only if the veto is overridden by a two-thirds majority of both the House of Representatives and the Senate (only 7% of Presidential vetoes have ever been overridden).

Much of how the House and the Senate function is not in the US Constitution, procedures have been developed over centuries, and may be subject to interpretation, or modification, by whomever is in the majority at any one time. For example, the critical manner to reach a voting decision has evolved differently in the two chambers. Initially, a simple majority assured passage, which is still the case in the House of Representatives, but beginning in 1837, the Senate applied a change in rules to permit one or more Senators to speak for as long as they wanted during the debate over a bill, giving them the power to prevent voting on the bill. This procedure, referred to as a filibuster, under current Senate rules can be overcome only by a vote of 60 Senators. This essentially means that if the minority party has at least 41 Senators, it can block legislative initiatives in the Senate, and since the Senate has to approve every new law, it is one of the principal reasons Congress has witnessed gridlock over the last decades.

In the 2020 election, the Democrats won the White House and Congress, but with only a slim 10-seat majority in the House of Representatives and an even thinner control of the Senate, which is split 50-50 between Republicans and Democrats. If on any issue all 50 Democratic Senators vote in favor, and all 50 Republican Senators vote against, the Vice-President of the country Kamala Harris, who statutorily occupies the presidency of the Senate, can cast a deciding vote in favor of the Democrats. Consequently, the Democrats are considered the majority Party in the Senate, giving them substantial power through the control of every Senate Committee and through the authority of the majority leader, Democratic Senator Chuck Schumer, who controls the order of work of the Senate, deciding on the daily legislative program and having first right to introduce any amendment or motion put before the Senate.

However, with such a thin majority, the Biden Administration is at the mercy of the Republican's use of the filibuster to block any major legislation in the Senate (just as the Trump Administration saw the Democrats actively use the filibuster tool).

Can the Democrats in Congress eliminate the filibuster? In theory, yes, using a procedure called the "nuclear option", a simple majority in the Senate can change procedural rules, meaning that if 50 Democratic Senators decide to eliminate the filibuster, they can do so. Many progressive Democrats, including ex-President Obama, are urging Biden to do just that, arguing that the filibuster makes the Senate fundamentally undemocratic³ but there are currently insuper-

³ As an example of how the filibuster rule makes the Senate undemocratic, we estimate the 41 Republican Senators who can together block any legislation represent barely one-fifth of the US population, whereas the other 59 Senators unable to move forward against the filibuster represent

able obstacles: two Democratic Senators, Joe Manchin III of West Virginia and Kyrsten Sinema of Arizona have repeatedly said they would not vote to eliminate the filibuster, and without their vote, the Biden Administration and the Democratic leadership in the Senate can do nothing.

There is some indication that there might be willingness to make some modification in the application of the filibuster, for example returning to a “talking filibuster” the older procedure where Senators actually had to speak and occupy the Senate floor for hours to kill a bill, in contrast to the current practice where the mere threat of filibuster blocks a bill and introduces the need to call for a vote of 60 Senators to continue working on it. There has also been some discussion among Senate Democrats to consider exempting certain categories of laws from the application of the filibuster, for example those applying to voting rights, but there is no clear agreement yet on these alternatives.

Another reason certain Democratic Senators are reluctant to eliminate the filibuster is their experience when, during the Obama Presidency the Republicans filibustered numerous Obama Cabinet and judicial nominations pushing Democratic Senate Majority Leader Harry Reid in 2013 to abolish the filibuster for those nominations (except for the Supreme Court). They came to rue the decision when the Republicans gained control of the Senate and Mitch McConnell decided not to confirm Obama’s Supreme Court nominee Merrick Garland and turned the procedure against the Democrats by changing the filibuster rule in 2017 to confirm three Trump Supreme Court nominations by simple Republican majority.

We cannot at this stage predict how various pressures in the Senate around the filibuster will evolve, it is possible that the rules of its application may change, but as of this writing President Biden has appeared reluctant and is probably unable to eliminate the filibuster⁴; it appears highly likely that the 60-vote filibuster will continue to operate in the US Senate during the Biden Presidency, probably during his entire Presidency but at a minimum during the first two years.

Fortunately for the Biden Administration, there is an alternative path that avoids a filibuster in the US Senate, termed Reconciliation; it was introduced in 1974 and permits passage of certain bills with a simple majority. It has been used only 20 times over the last 40 years, but it has been critical to pass most major pieces of legislation in the past decade, such as the Obama Administration’s

79.7% of the total US population (we arrive at this estimate by ascribing 100% of a state’s population that has two Republican Senators and 50% of its population for states with one Republican and one Democratic Senator, the 23 lowest population states which together have 41 Republican Senators represent a total population of 66,677,452 persons, only 20.3% of the population of 328,771,307 of the 50 states).

⁴ I am not certain eliminating the filibuster is in the long-term interest of the Democratic Party, a view I suspect Biden might share, even though it is not shared by most Democrats.

Affordable Care Act (“Obamacare”) and the Trump Administration tax cuts in 2017. 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 category⁵. The decision as to whether or not an element in a bill respects the rules of Reconciliation is made by one individual, the Senate Parliamentarian⁶, who is expected to decide on such matters in a non-partisan manner.

For the Biden Administration to use Reconciliation also requires that every one of the 50 Democratic Senators vote for a bill, giving enormous leverage to any single Democratic Senator who might exact a high price for a positive vote.

In his presidential campaign, President Biden said he would consistently “reach across the aisle” to seek to develop bipartisan consensus on major legislative initiatives. After he had proposed the \$1.9 trillion COVID Relief bill, 10 Republican Senators offered to replace it with an alternative \$618 billion relief plan. They expected to begin a negotiation which might have led to a compromise bill somewhere between the two figures, but Biden rejected any compromise⁷, insisting to stick to the \$1.9 trillion price tag, making it evident that he would not get Republican support for the bill in the Senate and obliging him to use Reconciliation to pass the legislation.

One of the consequences of this decision was that an important item on the Democratic Party agenda in the original bill presented to the Senate had to be dropped, an increase in the national minimum wage by 2025 to \$15 per hour, from the current level of \$7.25/hour, a level unchanged since 2009⁸. The Senate Parliamentarian judged that this provision did not meet the requirements of Reconciliation, and it was deleted from the final bill.

However, most of the provisions of the \$1.9 trillion COVID Relief bill passed Reconciliation rules, and the bill was passed by a vote strictly along party lines in the Senate (not a single Republican Senator voted for the bill), subsequently passed in the House (that had passed an earlier version before it went to the Senate) and signed into law by President Biden on March 11, 2021.

The passage of the COVID Relief bill was already a great accomplishment for President Biden, but what is he likely to get done after this first success? We can conclude from the above summary presentation of the way Congress works that the Biden Administration either has to get 10 Republican Senators to vote to

⁵ The Democratic Senate leadership has indicated they may have found a way to use Reconciliation more than once a fiscal year, which would give the Biden Administration additional flexibility to pass major new legislation, assuming they can get the support of all 50 Democratic Senators.

⁶ The current Senate Parliamentarian, Elizabeth MacDonough, has occupied the post since 2012 and is highly respected as a non-partisan judge of Senate procedures, including consistency with Reconciliation rules.

⁷ He no doubt remembered Obama’s compromising on legislation to get Republican support, to no avail.

⁸ Republican Senators would not have accepted this provision in any compromise bill.

overcome a filibuster on any bill, which as we will see below is highly unlikely for any major political initiative, or it will only be able to pass important legislation using Reconciliation, meaning it is limited to economic subjects fitting into the tight constraints of the Reconciliation procedure.

But that may be enough to get the second chapter of Biden's economic agenda passed, a "Build Back Better" major Infrastructure bill. There is talk of a \$3-\$4 trillion Infrastructure Package, what is likely to happen to it? One would guess that President Biden may follow the same pattern as with the COVID Relief bill, announcing an overall framework, seeking support from Republicans in Congress who have in the past expressed real interest in supporting infrastructure investment, perhaps Biden will seek more actively to bring on Republicans than he did with the COVID Package, but if there is no support from them, it is likely the Biden Administration will repeat the same process, use Reconciliation to push a major bill forward with no Republican support. Are any Republicans, particularly in the Senate, likely to vote for a Biden Infrastructure initiative? President Biden has not yet announced the outlines of his proposal, and we know that infrastructure investment is very popular with the American public and has had support from Republicans (Trump announced a major infrastructure project, but never got it started), but if as appears likely, the Biden Administration includes an increase in taxes to pay for the investment, recouping a portion of Trump's tax cuts for the wealthy and for corporations, then it is likely that the Republicans in Congress will boycott the initiative, and the Biden Administration will have to rely on pushing through using Reconciliation, once again with no bipartisan support.

Although getting a huge infrastructure bill passed through Reconciliation will be more complicated than the COVID Relief bill, with individual Democratic Senators requiring certain provisions and negotiating favorable treatment for their constituencies in exchange for their vote, it is reasonable to anticipate that Democratic Congressional leaders and senior officials in the Biden Administration who have experience in the bargaining required to get legislation through Congress, will be able to get a massive infrastructure bill passed by Congress in the course of 2021. And passing a total of perhaps close to \$4-\$6 trillion in government commitment of expenditures on these two initiatives will already be a spectacular accomplishment, transformative on the US economy.

What about the other chapters in Biden's political/social agenda to confront the multitude of problems the US is facing: gun control, voting laws, overhaul of the immigration system including a path for citizenship for most of the 11 million undocumented immigrants in the US, climate change, minimum wage (\$15/hour), reducing inequality and poverty, health care, making community colleges free, others? No legislation directly dealing with these subjects can pass the 117th Congress without a minimum of 10 Senators willing to join Democrats to over-

ride a filibuster. We should not forget that during the last six years of the Obama Administration, the Republican Party led by then Senate Majority Leader Mitch McConnell used every possible means to block any Democratic legislative initiative, leading to total gridlock in Washington. This proved to be a winning political game for the Republicans, they succeeded in painting Obama's Democratic Administration as "socialist", extreme left, as a result of which the Republicans won control of Congress. Although the political environment has changed, Senate Minority Leader Mitch McConnell has already made it obvious that he will not cooperate in legislating the Biden agenda.

That does not mean that certain smaller initiatives cannot be tried. There are areas of bipartisan agreement: strengthening the US against the Chinese rivalry, promoting new technologies, entertaining some measure to protect DACA recipients, the 700,000 immigrants who arrived in the country as children (86% of American voters support giving these "Dreamers" a path to citizenship), perhaps agreeing to an increase in the minimum wage below \$15/hour, there are various bipartisan groups in the Senate seeking to find agreement on some of these issues, and it is likely that Biden will encourage these initiatives, even if he will be pressured by a portion of the Democratic Party to not accept any partial solutions, but as of the date of this writing we can affirm that the Republicans in the current Senate are virtually certain to block passage of any transformative political or social agenda bill.

D. Biden's Transformative Economic Package: But as has already been shown in the successfully passed through Reconciliation of the COVID Relief bill, Biden may be able to accomplish many elements of his political/social agenda by integrating them in the two major economic initiatives he has proposed. Economics and politics are always intimately interrelated, the Biden Administration and its Democratic allies in Congress have already initiated a major change in the political/social arena through the COVID Relief bill, and they fully expect to continue the process with the Infrastructure Package.

They may, as was the case with the \$15/hour minimum wage proposal, be blocked by certain Reconciliation rules, but there are already many examples in the \$1.9 trillion COVID Relief bill of provisions integrating a strong social dimension, including a one-year expansion in the value and scope of the child tax credit, which the Columbia University's Center on Poverty and Social Policy estimates will cut the child poverty rate nearly in half, taking 5 million children out of poverty. The bill also includes greater access to healthcare and of course the direct \$1,400 payment to individuals with incomes no higher than \$75,000. Paired with other expanded tax provisions, the various payments will increase after-tax income for the poorest fifth of Americans by 20%, according to an analysis by the nonpartisan Tax Policy Center. Many view the measures as a generational expan-

sion in the social safety net, perhaps the most generous government benefit bill for low-income families ever. Senate Majority Leader Chuck Schumer said, “All told, the American Rescue Plan will be one of the largest anti-poverty bills in recent history.” House Speaker Nancy Pelosi called it “one of the most transformative and historic bills any of us will ever have the opportunity to support.” “We haven’t seen a shift like this seen since FDR,” said Andre Perry, senior fellow at the Brookings Institution.

Many of the provisions in the bill, including the child tax credit, are temporary, lasting for one year, but Democrats hope to make them permanent. For example, they are betting that Congressional Republicans will find it difficult to see child poverty virtual doubling if they do not join Democrats to renew the child tax credit provision at the end of 2021.

Although we have not yet seen the outline of the second chapter in the Biden economic plan, the \$3-\$4 trillion to be invested in infrastructure over a period of 8-10 years, we know Biden will integrate into every aspect of the bill two objectives: i) creating jobs, good-paying, unionized jobs that will contribute to significantly reducing inequality and racial injustice, and ii) fighting climate change. The Administration will seek in this legislation to rebuild the country, lift the fortune of workers and contribute to the common good by effectively combating climate change. Biden has already rejoined the Paris 2015 Agreement, the infrastructure agenda will probably include setting ambitious targets for the US to drastically reduce its carbon footprint, aiming at a net-zero emissions for the country by 2050. Biden has named a White House National Climate Advisor, Gina McCarthy, and ex-Secretary of State John Kerry as Special Presidential Envoy for Climate and has announced that combating Climate Change will be integrated in virtually everything the US Government does.

The project will no doubt be presented as the best way to counter the economic threat from China, with a strong dose of economic nationalism by “Building Back Better” the US, modernizing the nation’s infrastructure, reinforcing key industries and promoting investment in basic scientific research and innovative technologies. The specifics will include upgrading the country’s crumbling roads, bridges and energy infrastructure, a major impetus promoting electric vehicles, developing manufacturing capability for wind turbines and other new products for the sustainable economy, promoting certain sectors like green energy production, spurring investment in national broadband, with an overall objective of lifting the US economy to a sustained higher rate of growth, and a higher level of productivity growth, than the lackluster results of recent years with a parallel underlying objective to postpone the relative decline of the US position relative to that of China.

If, as we have assumed, Biden succeeds in realizing these two extraordinary initiatives, representing total government investment on the order of \$4-\$6 tril-

lion, it will be an enormous political accomplishment, with profound economic, social and political consequences, fully justifying the idea that his Administration will be transformative for the US.

E. Will it work? Biden's Economic Bets: In this section, we will try to examine what might be the economic and political consequences of these incredible measure.

The first question that comes to mind has already been posed by several leading economists, Democratic and Republican: will so much money put into the US economy rekindle an excessive level of inflation? The stakes could not be higher, for America and for the world. If Biden's bold experiment succeeds, we can look forward to an economically more dynamic and more politically stable, healthier and more egalitarian US.

But what if the grand experiment fails? As US economist Ken Rogoff, past chief economist of the IMF says, the US experiment has enormous global consequences: "If it goes wrong for the US, it goes wrong for everybody." Are we at risk of returning to a period of higher interest rates⁹, at a time when debt has skyrocketed around the world, including of course in the US to pay for the Biden programs, with disastrous impact on the economic health of the US and all the world economies?

Of course, we do not have a clear answer: everyone will be watching the results with fear and trepidation! The Biden team believes the risk of igniting high inflation is low, pointing out that there is substantial room to expand the labor force by making it easier for women to return to work and through immigration. We may also take some comfort in the statement made by the head of the US Federal Reserve Jerome Powell quoted earlier in this paper, indicating reasonable confidence that major fiscal stimulation is not likely to raise inflation to an unacceptable level, and in the statement by Biden's highly respected Treasury Secretary Janet Yellen, previous Chair of the Federal Reserve: "The President is absolutely right: The benefits of acting now – and acting big – will far outweigh the costs in the long run."

Addressing a second economic question: is Biden's bold gamble the precursor of a period of plenty for the US, with a return to higher growth, but this time sustainable and concurrently contributing to reduction of climate risk? In part due to the COVID Relief bill, Goldman Sachs has forecast that the US economy will expand in 2021 at an annual rate of 7 percent, the fastest pace since 1984. But can the rebound last, changing the equation of low growth that has been

⁹ Many commentators would agree a "reasonable" level of inflation is necessary and good. Recognizing it is difficult to say how high "reasonable" can be, it is clear that inflation has positive effects, including in the long run contributing to solving the problem of high debt, so long as it does not engender "stagflation" cycles of inflation and recession.

prevalent since the turn of the century, to a higher growth rate with controlled inflation? Can the Biden Administration mobilize the incredible creative talent of US industry and high tech to put into execution an economic policy that benefits a large majority of Americans, gradually repairing the deep racial divide that America has had throughout its history? Will they also revitalize labor unions and augur a shift in favor of labor relative to capital as Biden has clearly indicated he desires?¹⁰ The emphasis on investments linked to job creation to combat Climate Change and promote new technologies in the Infrastructure Package is intended to provide a major contribution to these objectives, assuming the US government is able to develop mutually constructive partnerships with private industry, taking advantage of the relative strengths of both parties.

Such an optimistic scenario seems too good to be true. My own view is that although these enormous resources will no doubt benefit workers in the real economy, reduce inequality and possibly racial injustice (a less certain outcome), already highly noteworthy accomplishments, it is much less certain that these efforts will result in a major shift in the structure of the US economy in the short term; powerful financial interests as well as the enormous concentration of monopoly power in many sectors, including the weight of the GAFAM¹¹, are so deeply entrenched in the manner of thinking and doing business in the US that it will take a profound change in mentality, and in economic, social and political behavior, to witness such a transformation, which at best will take many years to put into place.

We can reasonably hope, and perhaps even expect, that Biden will win both the bet that inflation will remain modest and that the real economy, and the workers who occupy it, will truly and permanently benefit from these major economic programs.

F. Will it work? Biden's Political Bets: It is obvious that these major economic and social initiatives will have political consequences; let us examine these through the lens of short-term and medium-term political goals.

The US has congressional elections every two years, alternating between Presidential and midterm elections, with in each case 100% of the House of Representatives up for election and one-third of the Senate. In November 2022, less than 20 months from now, we have the midterm elections. For Biden, the short-term objective is obviously to retain control of both houses of Congress, preferably increasing the Democrats' thin majorities. Unfortunately for the Biden Administration, there are few historical patterns in the US as certain as the loss of House seats by the Presidential party in midterm elections. In 18 out of the last 20

¹⁰ Biden's unusual direct intervention in support of the union organizers in the Amazon facility in Alabama is a case in point.

¹¹ Google, Amazon, Facebook, Apple and Microsoft

midterms, covering 80 years, Presidential parties have lost seats in the House of Representatives, frequently massive losses¹² and one of the two exceptions was in 2002, an outlier in the aftermath of the traumatic 9/11 events. The Democrats currently hold a thin 10-seat majority in the House of Representatives and most political commentators predict that the House will become Republican in the November 2022 election, blocking all further initiatives for the last two years of the presidential term.

This prospect is of course one reason why Biden is pushing forward as quickly as possible with his transformative agenda and also why he may be less likely to compromise on the terms of his projects in order to obtain support from the Republicans in Congress. What are the chances that he can break the pattern of history and retain control of Congress? The equation is complex: on the one hand there are many signs that are favorable to the Republican's chances of gaining House seats in the next midterm. Every 10 years, including in 2020, the US has a national census, which is used to both reapportion the 435 seats in the House of Representatives and to redraw House electoral districts for elections within states for the following ten years. When one Party controls the legislature in a state, they can redraw districts to give their Party an unfair advantage, a process termed Gerrymandering, which the currently conservative Supreme Court approved in 2019. One estimate is that Republicans are likely to gain, and Democrats to lose, three House seats from reapportionment and another five seats from gerrymandering¹³, enough alone to change the majority in the House.

In addition, although the GOP is currently in disarray between supporters and opponents of ex-President Trump, Republicans have unified behind a strategy to introduce state laws to make more difficult absentee and early voting, which typically are used more by Democratic voters; they have introduced 250 legislative proposals in 43 states, claiming that these will prevent the "massive voter fraud" which ex-President Trump and a large part of the Republican Party claim, without any evidence, occurred in the 2020 election¹⁴. Seeking to combat these efforts, Democrats in the House have passed a sweeping voting rights bill, which would counteract most Republican state maneuvers, but Republicans are sure to kill the bill in the Senate through the filibuster.¹⁵ With the courts in the US

¹² And in 16 out of 20 midterms, the Presidential Party also sustained losses in the Senate

¹³ From Samuel S Wang, director of the Princeton Gerrymandering Project, quoted in the NY Times article "The Gerrymander Battles Loom, as GOP Looks to Press Its Advantage, Reid J Epstein and Nick Corasaniti, January 31, 2021.

¹⁴ It is difficult to believe that a Republican strategy which does not seek to attract the votes of those who voted against the Party but rather prevent them from access to voting, is a viable long-term strategy in a country that proclaims itself a democracy, but it can provide some short-term success.

¹⁵ Fear of the consequences of Republican voter suppression efforts at the state level is one of the reasons many Democrats are pressuring Biden to seek to eliminate the filibuster, at a minimum in its application to voter rights.

having become increasingly conservative during the Trump Administration, the Democratic Party does not have effective ways of countering Republican state voting legislation, which most observers see as a reaction by the Republican Party to their loss in the 2020 election and as a clear effort to bias the next elections in their favor. Some commentators have suggested that the Republican Party strategy might backfire, with a strong backlash motivating Democratic voters to overcome the obstacles that have been put in place, but history shows voters are much less motivated in midterms than in presidential elections, typically the percentage participation is at least 10 points lower for midterms, and it is not evident that Democratic voters can be enticed to overcome the barriers to voting created by Republican-inspired measures.

Biden will clearly push to complete in 2021 the two major economic initiatives and, relying on their popularity with the US public, hope that the US electorate will penalize the Republican Party in the midterm elections of 2022 for not supporting them. A recent Pew Research poll¹⁶ found that 70% of American adults overall support the COVID Relief bill, including 41% of Republicans and GOP-leaning independents, but within this group 61% of moderate and liberal Republicans approve of it. Other surveys have consistently shown a large majority of American support infrastructure spending as well as raising taxes on the rich.

What will be the Biden's political strategy in the face of likely Republican obstructionism? Beyond the two enormous economic initiatives, we can further predict the following likely approach by the Biden Administration:

- a. Test Republican willingness to cooperate without compromising the Administration's objectives,
- b. If Republicans are open to cooperation, perhaps on part of an infrastructure plan, or on finding a way to legalize Dreamers' path to citizenship, work with them,
- c. If, as is likely on most or perhaps all items, Republicans will not cooperate, pass legislation without them, exploiting to the maximum the possibilities through Reconciliation,
- d. In parallel, pass numerous political/social bills in the House that are highly popular with the US public and loudly blame the Republicans for blocking them in the Senate, showing that the Republican Party is out of touch with the needs of the people and that more Democrats should be elected to Congress,
- e. Perhaps in the final analysis, if Biden feels this strategy is working, he may push to eliminate the filibuster in the Senate and if he is successful, pass a broader range of bills in his agenda.

¹⁶ From the Pew Research Center website, March 9, 2021.

If we look at history, Democratic Administrations have consistently been better for the US economy, and for markets, than Republican ones, by almost any measure¹⁷, but they have been very poor at selling their economic competence. Most Americans are convinced that Republican Administrations are better for the economy. And most American have very little faith in government. The Biden Administration will face these headwinds in seeking to carry out their agenda and reap the political rewards if they are successful in doing so.

There is no doubt another dimension in the medium-term political dimension of Biden's bold agenda. Even if as seems probable the Democrats lose control of Congress during the 2022 midterm election, we see the Biden Administration seeking to form a new Democratic majority, starting with its current dominant share of voters among African Americans, Latinos and liberal whites, but also seeking to embrace moderate Republicans and at least a share of the white lower and middle class that is currently Republican. Biden's talk of reviving unions is very significant in this regard; can economic success, if it comes, lead to a major political realignment, attracting to the Democratic Party at least a portion of the more than 74 million Americans who voted for Trump? Would it be sufficient to overcome Trump's messages of racial animosity and hatred that have so mobilized his supporters? We are about to witness a real political fight for the heart and soul of America, pursued by Biden and his team over the medium term, including probably a run for the presidency with the hope of regaining a significant majority in Congress in 2024.

Finally, let us not forget that the current Supreme Court, which may be called upon to judge the constitutionality of various legislative initiatives, has a strong conservative bias, with six justices named by Republican presidents, including three by Trump, and only three by Democratic presidents, perhaps an additional impediment for the Biden Administration to promulgate its agenda.

G. Impact on the World

What about the effect of the Biden Administration on the global economy? The OECD has forecast that Biden's COVID Relief bill alone will increase global growth by 1%, with Mexico, Canada and export-oriented economies in East Asia and Europe benefitting the most. In addition, if Biden's measures effectively contribute to a rapid rise in the US economy, possibly on a more long-term, sustainable basis without inflation, this will serve as an example to the rest of the world on how to best recover from the pandemic, weakening the arguments for tight budgetary policies in the EU and justifying fiscal stimulus as a motor of the economy. This, then, would be the response to right-wing, populist politics, as

¹⁷ See Blinder, Alan S., and Mark W. Watson. 2016. "Presidents and the US Economy: An Econometric Exploration." *American Economic Review*, 106 (4): 1015-45.

well as the best answer to prove that democracy can rival autocratic regimes in providing growth and prosperity, in the US, and elsewhere.

If on the other hand Biden's policies trigger inflation and an excessive rise in interest rates globally, it will no doubt be very difficult for many countries carrying heavy debt loads to prosper, and it will serve to comfort those who have insisted that austerity is necessary to achieve long-term stability, even at the price of necessary suffering.

Conclusion: Americans are unhappy with their government and unhappy with the current form of the US finance-driven capitalist system. We believe that just as 1980 marked the beginning of a remarkable rise in inequality in the US during the period 1980-2020, amply documented in Thomas Piketty's *Capital and Ideology*,¹⁸ so the election of Joe Biden in 2020 will be viewed as a tipping point, marking the beginning of a phase in the economic and political history of the US characterized by a growing role for fiscal policy and a more egalitarian and sustainable pattern of growth, with a gradual decline in inequality, to be recorded in a sequel to Piketty's book, to be prepared by him or his intellectual followers, perhaps in 2040 or 2060. This will not be a straight line process, there will be reverses, but we believe Biden, or those who will succeed him, will win the fundamental economic bet they have addressed, and that the US will, in the coming decades, profoundly change and move somewhat closer to the European Social Democratic model, at least in terms of social consciousness, without losing America's entrepreneurial dynamism, envied by all the world.

We also suggest in this paper that Biden's election not only foreshadows a profound change in the economic philosophy of the US, but also in the political framework. The latter is less certain, and will certainly take longer, evolving over more than one Administration, it will include America's dealing more openly and frankly with its racist history, arriving at a fair answer to the calls of the "Black Lives Matter" movement, and dealing with xenophobia, sexism, bigotry, white supremacy, strengthening its fragile democracy by improving its democratic institutions and overcoming excessive partisanship and beginning to deal with the myriad crises currently facing the country. In this positive vision, the election of Joe Biden would mark the beginning of the end of the resistant old order and the starting point in the gradual appearance of a healthier, fairer and sounder US for the years to come.

We hope such a conclusion will not prove to be erroneously, absurdly optimistic.

¹⁸ Thomas Piketty, *Capital et Idéologie*, Seuil septembre 2019, Introduction, Chapters 11 and 13