


## Biden's first 100 days: a more European US; should Europe now become more American?

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The US President, Joe Biden, has completed his first 100 days in the White House with economic policies that have been described as revolutionary and may be hammering a final nail into the coffin of neoliberalism and redefining the Washington Consensus, just as the news emerges that John Williamson, the man who coined the term, has died.

Although what the Biden Administration is proposing (increasing public spending, overhauling infrastructure and cutting inequality and poverty, and paying for it by raising progressive taxes, both at home and abroad) may take its inspiration from Franklin D. Roosevelt's 1930s New Deal, in reality it is no more than an attempt to get the US economy to converge with the basic principles of the European model of the social market economy: namely, increasing the role of the state in the economy to try to create a new social contract for the digital era. Much of what is now a matter of consensus in the Democratic Party has been carried out by the EU, or most of its member states, for some time, and it was Washington that was objecting to it.

In order to understand such a European-seeming President as Biden it is worth analysing his programme through five distinct prisms: (1) the theoretical-analytical; (2) the material; (3) the conceptual; (4) that of economic policies; and (5) that of geopolitics. Having conducted this dissection, and explored the impact it may have on forging a new consensus in economic policy worldwide, thereby sounding the death knell for the age of hyper-globalisation –something the authors would view as healthy, given the need to heal the fractures it is causing– we shall see why it is that Europe, with its more developed welfare state (and which self-evidently stands in need of improvement), would also do well to become 'more American' in terms of some of its policies.

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But let us start by examining what is happening. Although it may not be obvious, the state and the market are complementary and interdependent. The market cannot function without an institutional substrate and the state needs the market system to create innovation and wealth, something China has fully taken on board in embracing capitalism.

For centuries, however, the balance between the state and the market, in the form of greater or lesser degrees of regulation, taxation and redistribution, has varied. The past 150 years have seen had the wildcat capitalism of the late 19<sup>th</sup> century; a greater emphasis on the state with Keynesianism, the New Deal and German 'ordoliberalism', which laid the foundations of the social market economy in Europe after the Second World War; and the neoliberal revolution led by Reagan and Thatcher ('the state is the problem, the market is the solution') originating in the 1980s and further strengthened as the dominant ideology after the fall of the Soviet bloc.

All these major transformations have been mirrored on the international economic stage: the gold standard and free trade under British domination; the Bretton Woods agreement with restrictions on the movement of capital to give autonomy to domestic political policy and redistribute more effectively; and hyper-globalisation with a prominent financial component after the collapse of the Soviet bloc. But as Karl Polanyi explained in *The Great Transformation* in 1944, when the market becomes disembedded from the social system in which it operates, the obsession to maintain the economy's external balance (low inflation, a balanced budget and a harmonised balance of payments) means that public demands go unheard and inequality reaches such an extent that the model loses legitimacy; internal political forces emerge that pave the way to an adjustment, which may be peaceful or violent, but cannot be avoided. This is what is known as the 'double movement' or 'pendulum effect' which means that a period of *laissez faire* and deregulation is succeeded by another involving greater public intervention and participation. As the literature on the *Varieties of Capitalism* suggests, state participation has always been greater (albeit waning) in the EU (whether in its Nordic, German or Mediterranean manifestations), and now the US is returning to this path.

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Connecting this theoretical view with reality entails understanding how the material conditions of substantial parts of the populations of advanced countries have progressively deteriorated, particularly since the global crisis in 2008 and the austerity policies that followed it, now compounded by the economic fallout from COVID-19. Make no mistake: recent decades have seen enormous growth and have been highly positive for many emerging countries (thanks to, among other factors, a better balance between states and markets, mainly in eastern Asia), but it has been distributed extremely unevenly. And this increase in inequality and above all the reduction in social mobility and equality of opportunities in wealthy countries, owing in part to job insecurity, has been joined by frustration stemming from the 'decline of the West' and the resurgence of identity-based and nativist debates in national politics, paving the way for public calls for the state to play a more protective role. This dates back to the Great Recession (2008-10), but now with COVID-19 both the prospect of a K-shaped recovery (with winners and losers) and the need for protection (medical and economic), inevitably lead to a greater role for the state. The material conditions thus require it; the same applies to Europe.

But ideas, as Keynes suggested at the end of his *General Theory*, the mental frameworks within which politics unfold, are crucial in order to change reality: they define what is possible and acceptable and are constantly mutating. And there is always someone (typically an academic), who against the backdrop of changing material conditions constructs the basis of these 'revolutionary' ideas that subsequently sustain the economic policies of change and lend them legitimacy. Just as Robert Lucas and Milton Friedman laid the conceptual foundations for the conservative revolution, on this occasion authors such as Piketty and Zucman (both French, incidentally) and, before them, Rodrik, Stiglitz and Krugman, have placed the economic problems that lead to inequality and tax evasion at the heart of public debate and, more importantly, have done so using formal models from within the 'economics profession', and not some anti-system radicalism. Likewise, the contributions made by Nick Stern and William Nordhaus have helped to put the problems of climate change –and their possible solutions– on the economics research agenda.

And bit by bit, to no small extent due to the efforts made by journalists such as Martin Wolf and Martin Sandbu of the *Financial Times* to spread economic ideas among the global elite, organisations like the IMF, the OECD and the EU have gradually taken them on board. As a result, what was radical 20 years ago (environmental taxes, financial transaction taxes, a worldwide minimum corporation tax and, in general, acknowledging the danger of the social fragmentation stemming from inequality undermining the foundations of democracy), today constitutes perfectly accepted policies. The IMF, for example, formerly considered the bastion of neoliberal thought, has just proposed that taxes on the highest-income classes should be raised.

And this brings us to what Biden has actually achieved in these first 100 days and the impact that his political programme could have on international economic policy. The President, aware that over 70 million Americans voted for Trump, seems convinced of the need to bridge the domestic gulfs in the US economy and society. These gulfs are greater than in Europe because here there are still more comprehensive welfare states and automatic stabilising mechanisms that offset the impact of the crisis (above all in the north of the continent). Biden's 'Build Back Better' slogan reflects a desire to renegotiating the social contract, the demise of which has polarised the country and, if restored, would make US society more European (this is undoubtedly the wish of many intellectuals linked to the Democratic Party): creating a US with less inequality, a greater tax burden, more support for the 'losers' of globalisation and technological change, better infrastructure and a health and education system that boosts equality of opportunities and gets the social escalator back in operation. It is precisely this model of the social market economy that Europe too needs to reform to tailor it to the 21<sup>st</sup> century.

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Lastly, this internal transformation is also necessary to be able to compete with China at the geopolitical level. Biden is aware that in order to continue defending and promoting the socio-economic model of liberal democracies as opposed to more authoritarian systems such as the Russian and the Chinese, it is not enough for the US to once again be at the helm of global initiatives. The return to the Paris Accord on Climate Change, the reactivation of the G20, the extension of the IMF's Special Drawing Rights (US\$650 billion for providing liquidity to developing countries), the cooperation in the OECD aimed at greater corporate taxation and the attempt at a partial unblocking of the WTO with the appointment of the new Director General (the Nigerian Ngozi Okonjo-Iweala) are important, but the greatest efforts should focus on improving the standard of living of the average US citizen. And Biden thinks he can achieve this only by 'kickstarting the economy' (although at a risk of causing inflation) to overcome the country's social and economic problems, thereby winning over some Republican voters and maintaining his popularity after the mid-term elections due in two years. If he does not succeed, he will be unable to get transformative laws on the statute book, something that befell Obama when the Democrats lost their majority.

If this means adopting aspects of the European model in the US, it may be necessary to tailor the same model in Europe to the new era of competition between the great powers. The European insistence on the need to reform and not simply spend, and when money is spent that it be spent efficiently, has to be maintained. 'Build Back Better' involves using public resources as effectively as possible and creating oversight mechanisms. But this in turn entails improving the pre-distributive conditions and ensuring greater equality of opportunities, something that sometimes requires less, not more, regulation (for example in facilitating the creation and consolidation of companies): redistributing more and better, but with a more streamlined and less bureaucratic administration; and developing an industrial policy for the digital revolution, which requires closer public-private collaboration, as well as cross-border projects that can draw on Next Generation EU funding (here Europe has much to learn from such US innovation programmes as DARPA). In areas like these Europe has to become more American, thereby giving impetus to its own double movement. Since it has the world's second most important currency at its disposal, failing to do so would be a historic error.

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