FUTURE OF SOCIAL DEMOCRACY 09.11.2020 | Peter Bofinger

Joe Biden should not miss the Bretton Woods moment

The incoming president must abjure Trump's mercantilist language in favour of a progressive response to globalisation

If Joe Biden is inaugurated as the 46th president of the United States of America in January 2021, he will assume an office for which nobody—apart from his one-term predecessor, Donald Trump—envies him. He will have to lead and unite a country which has never been so politically and economically divided since the civil war.

The gulf between rich and poor—displaced by the rags-to-riches, social-mobility myth of the 'American dream'—is much more pronounced than in any other advanced economy. The US Gini coefficient of household-income inequality is only surpassed by the likes of Costa Rica, South Africa or Mexico, with the top 1 per cent of earners capturing fully one-fifth of income, well above the levels of the 1950s and 60s.

This increasingly stretched social hierarchy is reflected in the declining life expectancy of Americans since 2014, mainly due to suicides and drug addiction among white men. And with 655 prison inmates per 100,000 inhabitants, the US has been setting a world incarceration record for many years.

The social imbalance of the world's largest economy can be attributed to very low taxes. In 2018 US tax revenues were 24.3 per cent of gross domestic product, far below the 34.3 per cent average for members of the Organisation for Economic Co-operation and Development. Once again, apart from Ireland (whose GDP denominator is inflated by multinational gaming), only emerging countries—Chile and Mexico—have lower proportional tax revenues. In the absence of comprehensive social-compensation schemes, it is particularly disadvantageous for US workers that their real incomes have risen by just 8 per cent over the past 40 years—an annual rate of increase of just under 0.2 per cent.

Already deteriorating

Biden faces public finances which were already deteriorating before the Covid-19 pandemic. Despite a healthy inherited economy, under the Trump presidency the debt-to-GDP ratio rose from 106.7 per cent in 2016 to 108.7 per cent: his tax cuts in 2017 brought the budget deficit to 6.3 per cent by 2019. Government stabilisation measures in the wake of the pandemic are expected (according to International Monetary Fund estimates) to raise the deficit to 18 per cent this year and the debt ratio to 130 per cent.

In the first months of his presidency, the pandemic will dominate Biden's political and economic agenda. He has announced that he plans 'to adopt and dramatically scale up short-time compensation programs. Under short-time compensation—also known as work sharing—firms in distress keep workers employed but at reduced hours and the federal government helps make up the difference in wages. The Obama-Biden administration championed this approach in the US, and so far 27 states have established short-time compensation programs.' He explicitly refers to the good performance of Kurzarbeit in Germany in the 2008 financial crisis and now again in the pandemic.

In Germany this year, the number of people in short-time work went up dramatically (to six million), while the unemployment rate increased from 5.0 per cent in February to 6.3 in September (seasonally adjusted). In the US the unemployment rate shot up from 3.5 per cent in February to 14.7 per cent in April; in October it was still 6.9 per cent. Another positive element in Biden's programme is the forbearance towards students and mortgage-payers, in terms of financial relief until the worst of the economic fallout of the crisis is over.

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Overall, it is very likely that Biden, as he has said, will 'do whatever it takes, spend whatever it takes, to deliver relief for our families and ensure the stability of our economy'. Backed by massive treasury purchases by the Federal Reserve, there will be no financial constraint for the new administration in this regard.

The real challenge for the new president will be the post-pandemic period, which will be shaped by the structural changes it will effect on our economies, especially for unskilled workers. Joe Stiglitz has put it this way: 'Because machines cannot be infected by the virus, they will look relatively more attractive to employers, particularly in the contracting sectors that use relatively more unskilled labor.'

Another threat to low-skilled jobs is the reduction in business travel, which will most likely persist, at least to some degree. This means job losses in the service sectors dependent on it (hotels, airlines, restaurants, taxis, bars and catering). Service providers in city centres will also suffer from a decline in commuting, as working from home will remain more widespread after the pandemic.

Not very different

So the key challenge for Biden will be creating and maintaining well-paid jobs in the US. Yet in this regard he has made statements which do not sound very different from Trump's philosophy. He has declared that he 'does not accept the defeatist view that the forces of automation and globalization render us helpless to retain well-paid union jobs and create more of them here in America. He does not buy for one second that the vitality of US manufacturing is a thing of the past. US manufacturing was the Arsenal of Democracy in World War II, and must be part of the Arsenal of American Prosperity today, helping fuel an economic recovery for working families.'

How can this be achieved? Again, in his words: 'If we make smart investments in manufacturing and technology, give our workers and companies the tools they need to compete, use taxpayer dollars to buy American and spark American innovation, stand up to the Chinese government's abuses, insist on fair trade, and extend opportunity to all Americans, many of the products that are being made abroad could be made here today.'

Such a strategy, of 'America first' plus 'more manufacturing', is questionable. Trump's efforts to boost manufacturing and reduce the trade deficit with China failed: the share of manufacturing in GDP declined during his presidency. With digitalisation and the increasing use of robots in manufacturing, efforts to reverse this secular trend in all advanced economies are bound to fail.

But where will new jobs come from? Answers can be found in Biden's programme:

- 'We need millions of construction, skilled trades, and engineering workers to build a new American infrastructure and clean energy economy. These jobs will create pathways for young people and for older workers shifting to new professions, and for people from all backgrounds and all communities.'
- 'Biden will make sure that America has the cleanest, safest, and

fastest rail system in the world—for both passengers and freight.'

- 'Provide every American city with 100,000 or more residents with high-quality, zero-emissions public transportation options through flexible federal investments with strong labor protections that create good, union jobs and meet the needs of these cities—ranging from light rail networks to improving existing transit and bus lines to installing infrastructure for pedestrians and bicyclists.'
- 'Transforming the US electricity sector—and electrifying an increasing share of the economy—represents the biggest job creation and economic opportunity engine of the 21st century. These jobs include every kind of worker from scientists to construction workers to electricity generation workers to welders to engineers.'

To achieve these targets, Biden plans to 'invest $400 billion in his first term in additional federal purchases of products made by American workers, with transparent, targeted investments that unleash new demand for domestic goods and services and create American jobs. This will be the largest mobilization of public investments in procurement, infrastructure and R&D since WWII.'

After a nightmare of four Trump years, the world is eagerly waiting for a US president able and willing to tackle the challenges of our planet—challenges which call for immediate solutions.

While it is legitimate to stand up against China's government abuses, the idea to 'buy American', especially in public procurement, and to produce 'many of the products that are being made abroad' in America is flawed. Since Adam Smith and David Ricardo, economists have known that the international division of labour increases the 'wealth of nations'. The problem is not globalisation but the unequal division of the gains of globalisation—especially in the US.

Thus, instead of a 'buy American' strategy, which would induce protectionist measures by the main US trade partners, the challenge is to develop a welfare state according to the model of European countries. By undoing the tax reforms and tax benefits for the wealthy and big corporations an amount approximating to 2 per cent of GDP could be mobilised.

In sum, Biden's strategy to upgrade and 'green' American infrastructure goes in the right direction. Even if US debt is elevated, an amount of USD 400bn over four years—less than 1 per cent of GDP per year—seems manageable. But the idea of creating more manufacturing via a 'buy American' approach is a dangerous heritage from the Trump

era which should be discarded, the sooner the better.

Global solutions

What the world really needs today are global solutions. The IMF managing director, Kristalina Georgieva, has said: 'In 1944, John Maynard Keynes and Harry Dexter White led the establishment of the Bretton Woods system—including the IMF and the World Bank. They forged a better world in the worst possible moment, in the midst of war. We need the same spirit now for the post-pandemic world—build one that is more inclusive and more resilient.'

Above all many low-income countries will not able to overcome the crisis by themselves, as they lack the financial space of large currency areas which can raise money by issuing debt in their own currency. But a global effort to combat tax evasion and tax competition could also pave the way for higher taxes in the US, providing the country with the financial means to create a more equitable social order.

After a nightmare of four Trump years, the world is eagerly waiting for a US president able and willing to tackle the challenges of our planet—challenges which call for immediate solutions. Biden should not miss this Bretton Woods moment.

This article is a joint publication by Social Europe and IPS-Journal.



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