

## Weekly Commentary 26 – July 2023

*Bidenomics...dynamic new theory or a nothing burger?*

Last week, President Biden announced a new economic program. It is called “Bidenomics”. This is done to recharge his election campaign, because he knows, as everyone else does, that it’s going to be all about the economy. And unfortunately, his popular ratings on how Americans regard his handling of the economy are quite dismal, with just 34 percent of adults approving of his performance and only 24% willing to say that national economic conditions are in good shape. This is according to a May 22 poll from the Associated Press-NORC Center for Public Affairs Research.

If these ratings hold, and Biden is additionally perceived to be the 80 year-old guy who stumbles verbally all the time, who could become mentally decrepit in the next few years, leaving a much reviled Kamala Harris in charge, then he is very far away from a second term. Consequently, “Bidenomics” has been launched to change public perceptions of how Biden can improve things for the American electorate.

What the hell is “Bidenomics” anyway?

It is actually just a populist and glossy reframing of Biden’s policies already made so far since he became President. In other words, it is repackaging everything Biden has proclaimed to be his policies on the US economy into what his re-election team thinks will let him retain the White House. Therefore, it is nothing concrete, nothing new, and just a makeover of existing measures to sound like he is refocusing on the American “middle class” whose members have been pummelled for thirty years as the economy became bifurcated into the top 1 percent and then the other 99. The middle class is actually no more. Those who used to be there are now among the “sandwiched class” who earn too little, work too many hours, and borrow too much, eking out a harsh brutal Hobbesian existence their parents left behind during the golden years of the American Dream.

CNN came up with a colourful description of what Bidenomics is all about:

### **The ‘Bidenomics’ plan, explained**

By [Tami Luhby](#), CNN June 28, 2023

[Move over, Reaganomics. President Joe Biden is attempting to usher in the era of “Bidenomics.”](#)

[This economic theory – which rejects the idea of “trickle-down” policies in favor of focusing on the middle class – will be a centerpiece of Biden’s 2024](#)

reelection campaign. The president highlighted the achievements he's attributing to Bidenomics in a major speech in Chicago on Wednesday.

Growing the economy from the middle out and the bottom up – not the top down – is Biden's mantra.

"When that happens, everybody does well. The wealthy still do, everybody does well," Biden said, noting that the media came up with the name Bidenomics. "This vision is a fundamental break from the economic theories that failed America's middle class for decades now."

Trickle-down economics, which was at the heart of President Ronald Reagan's policies and continues to be the guiding light of Republican lawmakers, typically revolves around tax cuts for the wealthy and large companies. Supporters say the benefits flow down to middle-class and working Americans, boosting economic growth more broadly. But many experts dispute the effectiveness of this practice at lifting all boats.

Biden argues that supply-side, trickle-down economics has cost jobs and hollowed out the middle class. He has long focused on that group of Americans, serving as chair of the Middle Class Task Force when he was vice president in the Obama administration.

"Folks, let me say it as clearly as I can: (The) trickle-down approach failed the middle class and failed America," said Biden.

To fund Bidenomics, the president once again calls for ensuring the wealthy and large corporations pay their fair share of taxes.

Biden, however, is still struggling to sell his economic agenda to the public. Two-thirds of Americans disapprove of how he's handled the economy and just over three-quarters feel the economy is in poor shape, according to a CNN poll conducted by SSRS in May.

**The administration and several officials have provided an outline of what Bidenomics entails. A fact sheet distributed by the White House lists the president's efforts to date but does not include any new initiatives.**

Here are three key principles of Bidenomics:

### ***Making public investments in America***

The Biden administration has focused on infrastructure, clean energy and semiconductors, Lael Brainard, director of the National Economic Council, said at Tuesday's White House press briefing.

The efforts aim to attract private investment, according to the fact sheet. Since Biden took office in 2021 they have already spurred nearly \$500 billion in private-sector commitments.

One example: The administration is touting the fact that construction spending on manufacturing facilities has doubled since 2021. The Infrastructure Investment and Jobs Act, Inflation Reduction Act, and CHIPS Act each included

direct funding and tax incentives for public and private manufacturing construction. This surge is not happening in other advanced economies, it notes.

Also, earlier this week, Biden outlined how states will receive more than \$42 billion in federal funding for high-speed internet service, which was part of the 2021 infrastructure law. It is aimed at bringing connectivity to more Americans and closing the digital divide. The administration is comparing it to President Franklin Delano Roosevelt's Rural Electrification Act, which brought electricity to homes throughout the country.

And 35,000 new projects – including roads, bridges and ports – have received funding through the bipartisan infrastructure law, the White House said.

### ***Empowering and educating American workers***

The Biden administration has also taken steps to prepare workers for the jobs of the future, including those that don't need four-year college degrees, Brainard said. The president has supported unions and created apprenticeships.

He recently visited a North Carolina community college to discuss job training in advanced manufacturing and noted the \$500 million investment in the Good Jobs Challenge, which stems from the American Rescue Plan.

Biden is taking credit for the 13 million jobs that have been created since he took office and the long stretch of a near-historically low unemployment rate, as well as the record low rates for African- and Hispanic-Americans and people with disabilities. It should be noted that Biden took office in January 2021 in the throes of the Covid-19 pandemic, which unleashed economic upheaval as many Americans stayed home.

The administration also says the share of working-age Americans in the labor force is higher now than it has been in more than 20 years. The jobs also come with better pay, better benefits and better schedules as employers seek to attract and retain workers, according to a memo circulated Monday by two of the president's senior advisers, Anita Dunn and Mike Donilon.

### ***Promoting competition***

The president has also focused on boosting competition to reduce costs and level the playing field for small businesses.

The administration points to his signing an executive order in 2021 to ban or limit non-compete clauses. The Federal Trade Commission in January proposed a rule to ban employers from imposing noncompete agreements on workers and to rescind all existing agreements.

Also, Biden officials have highlighted the Inflation Reduction Act provision that reduces insulin costs for Medicare enrollees to \$35 a month, as well as the president's proposal targeting so-called junk fees.

Well, well, well...if this is “Bidenomics”, it should simply be termed a gauntlet thrown on the table to pick a fight with Republican economic orthodoxy established by Ronald Reagan and unchallenged ever since. Now our 80 year old hero of the day, who demonstrated his economic credentials by giving out so much money through his earlier Modern Monetary Theory that it revived a scourging inflation and also intensified an economic war with China that is pulling basic economic relationships apart which would worsen economic conditions for the American middle class. So, you would wonder about Mr Biden’s credentials for organizing his newest brand of economics. As I remember it, with this president, it has always been more hype than substance. And I don’t expect this time to be any different.

But wait! Maybe it wasn’t all his ideas. According to the CNN article above, Bidenomics is about the Middle Class, and he wants to do good for them by building more “infrastructure”, provide more “education” to the masses (forget about the “improving competition” bit – that’s just BS). It’s taking a page out of the economic playbook of Enemy No 1, China. With the adoption of Bidenomics, is Mr Biden now basically admitting that the economic system of his “dictator” nemesis, Xi Jinping, is not so bad after all, and he wants to copy key features in it for his own domestic agenda?

That’s a bit of hypocrisy on the part of the American leader. It would be nice if he stopped talking out of both sides of his mouth, although we can acknowledge that he needs to be seen to be tough on China, rather than seen copying China’s economic policies. But if Bidenomics covers plans to get out of a fight with China and improve everybody’s economic prospects by simply admitting that Beijing get many things right, then Bidenomics may yet work out. Unfortunately, it doesn’t do that...

As I see it, Bidenomics is a declaration of war against the Republicans Party and the way economic policy has been practised in the country. For the last forty years, “trickle down” economics has been maintained as the prevailing economic orthodoxy across both parties. It wasn’t perfect but it has kept America at the top for all this time, with its worst excesses being the near collapse of the financial system in 2008, a deepening wealth/income inequality problem in American society and the destruction of American manufacturing which followed from the ascendancy of its biggest competitor. Hey, you cannot have everything going for you... On the whole, economic history will write that Reaganomics wasn’t such a bad deal through the years for American society even if it did heighten wealth/income inequality and gave China the opportunity to rise and overtake America.

But what about the track record of Bidenomics so far? Well, in just two years, it has created the worst inflationary economic experience in forty years, actually since Reaganomics began, and inflation actually widens the gap between the rich and the Middle Class more insidiously than income differences do. It has also sent the budget deficit/national debt to the highest levels ever in history, threatening a collapse of the entire government, its credit worthiness and the ability to function in financial markets. The government is now essentially bankrupt

from its operating budgets, and there is just no money to spend on the new specs in Bidenomics – ie infrastructure and education.

As pointed out even by CNN, a Democratic party mouthpiece, nothing in Bidenomics is really new. And Joe has promised new infrastructure since he failed to deliver on Build Back Better more than a year ago. Has anything changed? Should we now expect progress now that BBB has a new name? As for education, he cannot even get his waiver of student loans or race based admissions criteria approved by the Supreme Court, just last week, both major setbacks in his liberal program.

Worse still, Biden has taken on both Russia and China at the same time, and this is the so-called “two front” conflict which all nations at war must avoid. Many traditional allies of the US, or neutral nations, have found the Biden Administration’s tendency to form military alliances all over the planet rather distasteful; and this has caused many to opt for BRICS, weakening US economic hegemony and forcing it to become more militaristic in its foreign policy. This has led to ballooning defence spending. US dollar hegemony is also weakening due to de-dollarization in much of the non-western world. That’s Bidenomics for you - spending more money on defence than it can afford and sliding into unintended but self-inflicted de-dollarization when it tries to force unwanted alliances on others. Bidenomics is therefore worse than just a nothing-burger; it is actually counterproductive to America’s standing in the world.

Bidenomics is also a China-copying economic philosophy in infrastructure and education but without the fundamentals/national savings to implement it, it will most likely fail. It is really just an exercise to portray the Democratic party as more middle class friendly than the Republicans - an election gimmick which tries to rewrite what unbridled capitalism has wrought in the last forty years, and pitches liberal spending policies deemed to be attractive to the masses who still possess the power of the vote.

It is interesting to note the tipping of the hat by Mr Biden’s White House to the key elements of Chinese economic policy in infrastructure building as well as the promotion of technical education. This indicates that they acknowledge that in the world today, the Chinese system has got many things right, and there are certain things the US needs to emulate. If imitation is the best form of flattery, then beyond the rhetoric, the White House seems to acknowledge the success of China. Well, well, what do you know?

Perhaps this is as the Financial Times’ influential writer, Martin Wolf, writes, just Buyers’ Remorse, as explained in this article published last week:

## **America is feeling buyer's remorse at the world it built**

*Jake Sullivan has called for a new 'foreign policy for the middle class'. But what does that really mean?*

MARTIN WOLF JUNE 28 2023

When the US talks, the world listens. It is, after all, the world's most influential power. This is not due only to its size and wealth, but also to the potency of its alliances and its central role in creating the institutions and principles of today's order. It played the decisive part in creating the Bretton Woods institutions, the General Agreement on Tariffs and Trade and the World Trade Organization. It promoted eight successive rounds of multilateral trade negotiations. It won the cold war against the Soviet Union. And from the early 1980s, it pushed for a deep and broad opening of the world economy, welcoming China into the WTO in 2001. Whether we like it or not, we all live in the world the US has made.

Now, suffering from buyer's remorse, it has decided to remake it. Janet Yellen, US Treasury secretary, outlined the economic aspects of the new US vision in a speech delivered on April 20. Seven days later, Jake Sullivan, the national security adviser to Joe Biden, gave an even broader, albeit complementary, speech on "Renewing American Economic Leadership". It represented a repudiation of past policy. It could just be seen as a return to Alexander Hamilton's interventionism. Yet, this time, the agenda is not for a nascent country, but for the world's dominant power.

## The US economy has seen a shift away from industry

Share of GDP, in current prices (%)



Source: BEA

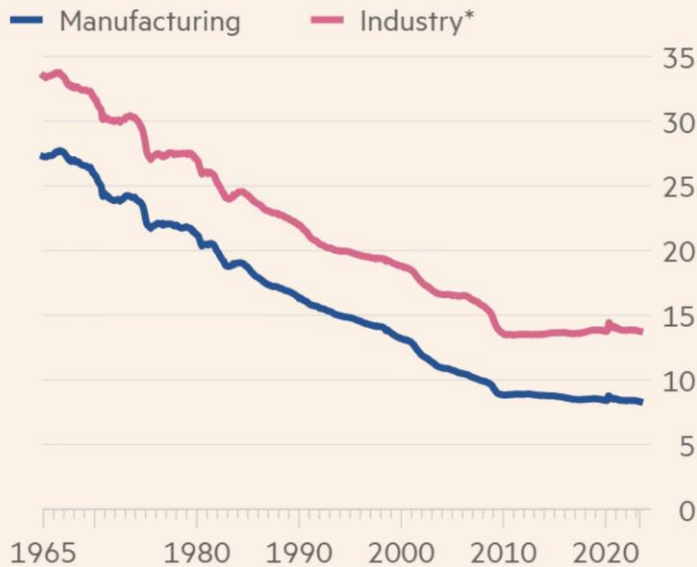
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What was Sullivan saying? And what might it mean for the US and the world?

The starting point is domestic. Thus, a “shifting global economy left many working Americans and their communities behind. A financial crisis shook the middle class. A pandemic exposed the fragility of our supply chains. A changing climate threatened lives and livelihood. Russia’s invasion of Ukraine underscored the risk of over-dependence.” More narrowly, the administration sees itself as confronting four huge challenges: the hollowing out of the industrial base; the rise of a geopolitical and security competitor; the accelerating climate crisis; and the impact of rising inequality on democracy itself.

## Industrial employment has declined, affecting communities

Share of US nonfarm employment (%)



\* Manufacturing, construction & utilities

Source: BLS

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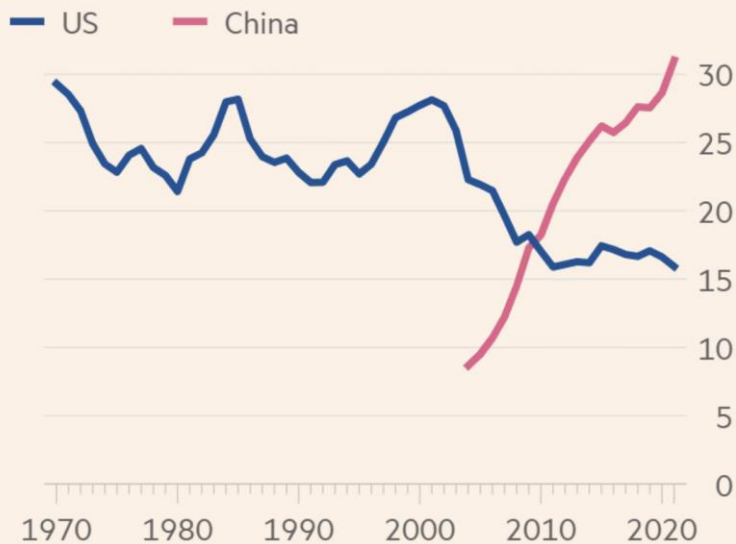
In a key phrase, the response is to be “a foreign policy for the middle class”. What, then, is this supposed to mean?

First, a “modern American industrial strategy”, which supports sectors deemed “foundational to economic growth” and also “strategic from a national security perspective”. Second, co-operation “with our partners to ensure they are building capacity, resilience, and inclusiveness, too”. Third, “moving beyond traditional trade deals to innovative new international economic partnerships focused on the core challenges of our time”. This includes creating diversified and resilient supply chains, mobilising public and private investment for “the clean energy transition”, ensuring “trust, safety, and openness in our digital infrastructure”, stopping a race to the bottom in corporate taxation, enhancing protections for labour and the environment and tackling corruption.



## The US's role as a manufacturing superpower has been overtaken by China this century

Share of global manufacturing output (%)



No UN data for China pre-2004

Source: UN Statistics Division

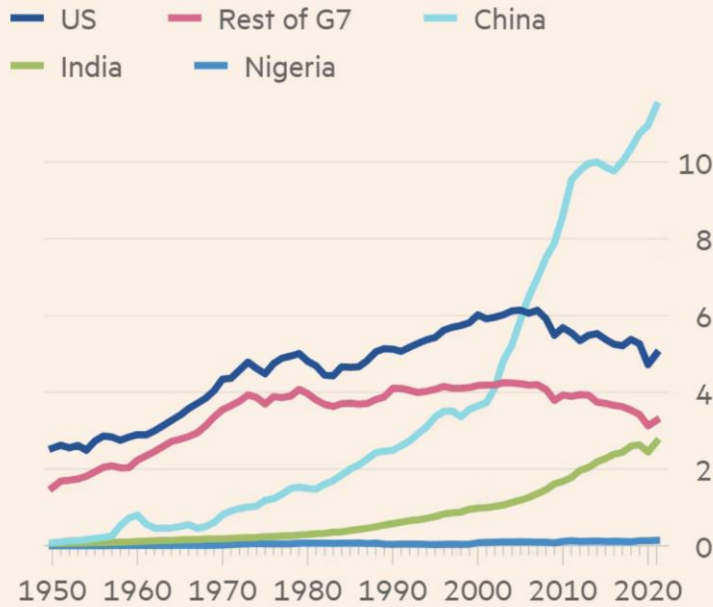
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Fourth, “mobilising trillions in investment into emerging economies”. Fifth, a plan to protect “foundational technologies with a small yard and high fence”. Thus: “We’ve implemented carefully tailored restrictions on the most advanced semiconductor technology exports to China. Those restrictions are premised on straightforward national security concerns. Key allies and partners have followed suit.” It also includes “enhancing the screening of foreign investments in critical areas relevant to national security”. These, Sullivan insists, are “tailored measures”, not a “technology blockade”.

This is indeed a fundamental shift in the goals and means of US economic policy. But both the depth and the durability of these shifts depend on how far it reflects a new American consensus. Where it is nationalist and protectionist, it already surely does. Where it downplays the priorities of business and the role of markets, it could also prove durable. Donald Trump’s populist Republicans could surely accept almost all of this.

## The US still has a long way to go to decarbonise

CO2 emissions (billion tonnes)

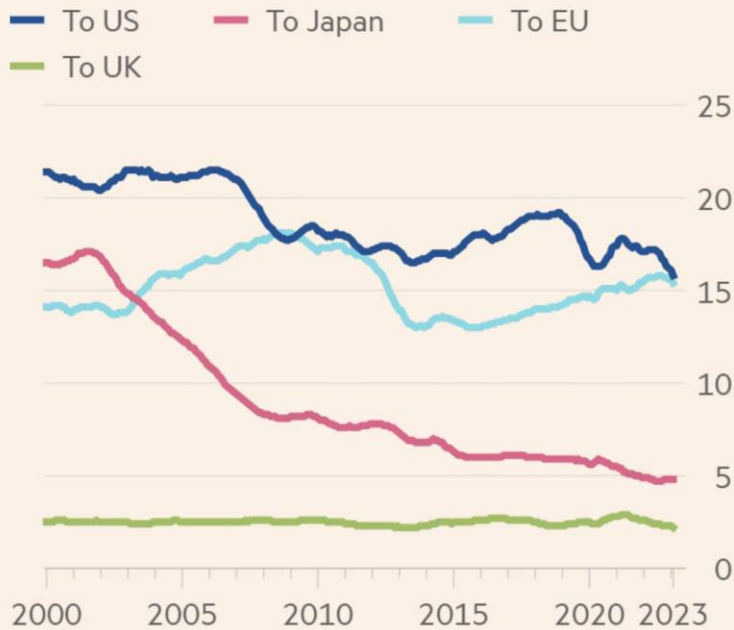


Source: Our World in Data  
© FT

Do the new objectives make sense? In some fundamental respects, yes. Having just published a book called *The Crisis of Democratic Capitalism*, I agree that the anger and disappointment of what Americans call “the middle class” is a dangerous reality. I agree, too, that climate is an important priority, supply chains need to be resilient and national security is a legitimate concern in trade policy. Russia has surely taught us that.

## The US and EU remain consistently large markets for China's exports

Share in Chinese exports of goods (%)

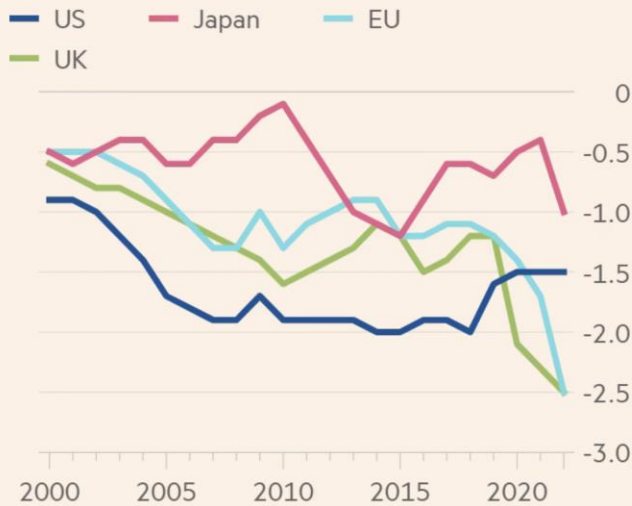


Source: IMF  
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Yet will it actually work to make Americans and the rest of us better off and safer? One doubt concerns the scale. Sullivan states, for example, that it is “estimated that the total public capital and private investment from President Biden’s agenda will amount to some \$3.5tn over the next decade”. That is at most 1.4 per cent of gross domestic product over that period, which is far too little to be transformative. Another is that it is hard to make industrial policy work, especially for economies on the technology frontier. Another concerns how disruptive this new approach will be for economic and political relations with the rest of the world, notably (but not only) with China, especially on trade.

## The EU and UK run large deficits with China, relative to GDP

Each country's trade balance with China as a % of its own GDP



Source: IMF  
© FT

In particular, it is going to be hard to distinguish purely commercial technologies from ones with security implications. It is also going to be tricky to distinguish US friends from foes, as global reactions to Russia's invasion of Ukraine shows. Not least, it is going to be hard to persuade China that this is not the beginning of an economic war upon it. Yet China already holds many cards in such a fight, as Harvard's Graham Allison has noted for the case of solar panels. Rare earths are another such case. Above all, the new approach will only work if it leads to a more prosperous, peaceful and stable world. If it leads to a fractured world, environmental failure, or outright conflict, it will fail in its own terms. Its authors need to be careful in calibrating the execution of their new strategy. It could backfire badly.

There you go. Bidenomics is not what the CNN, the propagandists for the Democrats, says it is. I prefer to go with the Martin Wolf interpretation of "the economic strategy for the Middle Class" which is Jake Sullivan's introduction of it, made prior to his boss' speech at the end of last week. In short, Bidenomics has been planned for some time now, and is articulated as the new economic policy to bolster Biden's chances for a second term.

But as the FT has put it succinctly, China has many cards to counter the continuing effort by the US to maintain its hegemonic status. FT names a couple of these, which are important, but they have not mentioned the ascendancy of China's EV industry, the 5G/6G technology, e-payments systems, infrastructure, shipbuilding, space technologies and that in the chips war, China has demonstrated greater resilience than the Biden White House had expected. For example, in spite of the tough sanctions not to allow US manufacturers to sell advanced chips to China, companies from America's

allies were also forbidden to do so. That has met with resistance. Taiwanese and South Korean companies protested and the US government relented. Those companies can sell to China again, as reported in the WSJ below:

## Watering Down China Chip Restrictions Sometimes Makes Sense

*There are good reasons for the U.S. to let top Asian chip makers keep producing in China—and it won't help China all that much anyway*

By  
Jacky Wong, The Wall Street Journal, June 14, 2023

*Interrupting chip production in China could disrupt supplies of many electronic devices.*

The war for chip supremacy between China and the U.S., already well under way, won't be a straightforward slugfest. It will require compromise and strategy. Most important, the U.S. will need the continued support of its allies.

Recent news suggests the Biden administration understands this. That could help prevent a chip-price jump—and collateral damage to America's own chip-making plans.

The administration, which last October released tough rules restricting shipments of advanced chip making equipment to China, said it plans to extend the exemptions it gave to top South Korean and Taiwanese chip companies. That would allow makers like Korea's Samsung Electronics and Taiwan Semiconductor Manufacturing Company, or TSMC, to maintain and perhaps expand facilities in China beyond the original one-year exemption's October 2023 deadline.

Probably both supply-chain realities and foreign-policy objectives—including keeping key allies on board—factored into the decision.

China is the world's largest semiconductor market, according to the Semiconductor Industry Association, accounting for nearly a third of last year's \$574 billion in global chip sales—with many of those chips going into devices that are then shipped around the world.

And Korean memory-chip makers, in particular, have a big footprint in the country. Samsung and SK Hynix plants making NAND chips, used for storage, represent around a quarter of total global NAND capacity, according to research firm TrendForce. Around 40% of Samsung's NAND capacity and 20% of SK Hynix's is in China, according to Fitch Ratings, which says China is also home to 40% to 50% of SK Hynix production capacity for DRAM, used in processing, in China.

Suddenly stopping all that could disrupt supplies of many electronic devices, as well as seriously hurting Samsung and SK Hynix, which have invested billions of dollars in the fabrication plants.

Also, the U.S. needs Samsung and TSMC, which make the world's most advanced chips, for its own chip-making plans. Both companies are poised to invest billions in the U.S. but are wary of CHIPS Act restrictions on their China investments if they

take U.S. subsidies. For either to seriously scale back its U.S. ambitions—and invest more at home or in Europe, for example—would be a major blow to the U.S. initiative.

But perhaps most important, permitting foreign chip makers to keep producing mature-node semiconductors in China may do less to help China than many critics think. Even with waivers, it would still be very difficult for them to upgrade their operations to make cutting-edge chips. They won't be able import extreme ultraviolet lithography machines, used to make the most advanced chips, from Dutch company ASML.

Given the risks of intellectual-property theft, of which Samsung and TSMC are well aware, they are unlikely to want highly advanced plants in China anyway. Instead, they will build them at home—or in the U.S., if the CHIPS Act is successful—while their plants in China keep running but recede further and further from the cutting edge.

Fighting a chip war with China won't be easy or quick. To succeed, the U.S. will need a lot of scientific brawn and common sense—and its friends and allies.

That is a reluctant admission that the Chinese chip industry is not so easy to bury. The Americans cannot just dictate to all their allies' businesses to end dealings with China. These companies need the Chinese market or they will die. Sanctions against small countries is not the same as sanctions on China, just as fighting the Iraqis or Afghans is a completely different matter from taking on the Russians in Ukraine.

And there is the much-hyped restrictions on Artificial Intelligence hardware about to be imposed on China. This is what Sullivan referred to when he proclaimed that America would do things in a small yard (ie with restrictive possession of IP) with high fences (with security protection). This assumes that the US is ahead of China in this critical space. But is it?

Here is a Fortune Magazine article that cites a State Department study on the subject:

**As America obsesses over ChatGPT, it's losing the race with China on tech in 37 out of 44 areas, study funded by the State Department says.**

By Prarthana Parkash, March 3, 2023

The cutting edge of technology in 2023 is artificial intelligence, with the (sometimes creepy) ChatGPT nearing an "iPhone moment" as a revolutionary tool that is being adopted at record speed. But it could just be sideshow to the real story: China's

emergence as the world's tech superpower. From Baidu's Ernie Bot to electric vehicle maker, BYD, China has had an answer for almost every technological development taking on the world. The US has responded with trade restrictions that limit Beijing's access to critical materials for making chips used to power gadgets. And President Xi Jinping has, in turn, advocated for China to become self-reliant when it comes to technology. A think-tank study partly funded by the US State Department found that China's lead is "sometimes stunning" and Western democracies are floundering.

The study by the Australian Strategic Policy Institute (ASPI), based in Canberra, found that in 37 out of 44 areas covering crucial technology such as defense, space, artificial intelligence, and robotics, China is clearly in the lead. And while the U.S. occupies second place in most categories, China is far ahead thanks to its stellar research, knowledge imported from overseas, and years of policy work geared toward tech talent and investments.

"Western democracies are losing the global technological competition, including the race for scientific and research breakthroughs," said the ASPI report, which tracked "high-impact" research based on citation numbers to measure the areas in which countries were having breakthroughs. The think tank urged Western governments to invest more in research and development.

**"The west has over-relied on the assertion that innovation can only occur in free markets supported and led by venture capital funding and entrepreneurship,"** Jamie Gaida, a senior analyst at ASPI and co-author of the report told *Fortune*. **"Our data challenges that assertion, and indicates that China is delivering upon its strategic vision."**

The project was funded by the State Department's Global Engagement Center and a grant from the Special Competitive Studies Project. ASPI also said a 2021 project on critical technologies funded by Australia's Department of Prime Minister and Cabinet helped inform its direction.

The few areas where the U.S. remains the leader include vaccines and quantum computing, the study found. It did note, however, that China and the U.S. are far above any other country worldwide. Other tech powers such as the U.K., India, Germany, and Japan are trailing in the distance, with smaller pools of research and investment in their respective technology fields.

"It's important that we seek to fill this gap so we don't face a future in which one or two countries dominate new and emerging industries," the report said. "In the long term, China's leading research position means that it has set itself up to excel not just in current technological development in almost all sectors, but in future technologies that don't yet exist."

The report identified that China was boosting its knowledge from overseas, particularly in the "Five Eyes" countries—the U.K., the U.S., Australia, Canada, and New Zealand. Locally, the Chinese Academy of Sciences has won the top



rank in several critical technologies identified by ASPI.

In the coming years, China could have a monopoly in 10 different fields ranging from electric batteries to 5G. ASPI cautioned that if China's technological dominance is left unchecked, it could skew "global power and influence" in a way that is no longer transparent and available to public access or scrutiny.

The report comes as Xi Jinping renews his push for investments in domestic research and technology. Last year, he appointed a number of scientific experts in A.I., aerospace, and other fields to leadership positions in the Communist Party. In October, Xi famously used "research" several times during the CCP's congress, emphasizing the role that technological advancement will have in coming years.

As such, Bidenomics is merely a publicity stunt meant to take on the Republicans in a domestic setting. As you can see, I am citing western sources, rather than Chinese ones, to assess the emergence of China in key technological fields, and they reveal that China is already surpassing the US, affecting their relative ranking in the global economy. This goes against the primary tenets of Bidenomics which claim American leadership in chips, AI and other fields and seek to protect that edge. It will be interesting to see how much Bidenomics is just another "narrative" on how great the Biden administration has been. If it falls flat, as I expect it to, don't be surprised if America opts for Trump at the ballot box, who will no doubt reassert the merits of "trickle down" economics.

Don't dump "trickle down" economics anytime soon, as Biden is trying to do.

*By:*

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*Fintech Entrepreneur, Money Manager and Blogger*

*Un-Influencer in a World full of Hubris*