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The California-based Hewlett Foundation pushed the idea of a federal spend-a-thon.



POLITICS & IDEAS

How Inflation Killed Bidenomics

I started noticing in 2018 that economists I knew were receiving grants from the California-based Hewlett Foundation. These grants were part of an organized effort to develop an alternative to neoliberalism, an intellectual framework that Hewlett said had "outlived its usefulness." Hewlett defined neoliberalism as a paradigm focused on free markets, limited government, maximum growth and individuals competing to improve their welfare.

This paradigm, Hewlett argued, led to a mistrust of government, fear of public investment, drive for deregulation and preference for free trade. It became prominent after the stagflation of the 1970s, which undercut the credibility of Keynesian demand-side macroeconomic policy. Hewlett argued that more recent developments—wage stagnation, wealth inequality, and some negative effects of free trade—had weakened the appeal of neoliberalism. It was time to birth something new, and the foundation would be the midwife.

In December 2020, a month before President Biden took office, Hewlett published an assessment of its program's first two years. To develop the new economic paradigm, the foundation had funded academic centers and left-leaning think tanks. Some denizens of these organizations, such as Heather Boushey of the Washington Center for Equitable Growth, entered the Biden administration, while others—such as Felicia Wong of the Roosevelt Institute and Barry Lynn of the Open Markets Institute—served as influential outside voices.

The Biden administration, unsurprisingly, made significant departures from neoliberalism. The administration's economic strategy included industrial policy, worker power, antitrust policy, a shift away from free trade, and a reorienting of fiscal and monetary policy away from capital toward labor.

Several of these measures yielded tangible results, but the new macroeconomic policy proved fatal for the administration. The Hewlett report insisted that neoliberalism had hurt workers by focusing on inflation rather than unemployment. Why was it, the report asked, that after a long period of rock-bottom interest rates, inflation was "too low"? The report asserted: "If economic developments over the past decade show anything, it is that there is greater headroom for spending without causing undue inflation." Governments, Hewlett argued, can spend more on efforts to boost demand "without worrying about inflation quite so frantically."

A few months later, Mr. Biden signed into law the American Rescue Plan, a nearly \$ 2 trillion stimulus package on top of the trillions the Trump administration had spent during the pandemic. Three years later, the consumer-price index showed a 20% overall price increase. The inflation over which the Biden administration presided dramatically undermined Kamala Harris's electoral prospects.

Some Democratic-leaning economists have argued that inflation was a global, pandemic-induced supply shock on which fiscal stimulus had little or no effect. To his credit, Jared Bernstein, Mr. Biden's chief economic adviser, doesn't take this easy way out. In a recent interview with the New York Times, he said the inflation of recent years "was exacerbated by strong demand, no question. So I'm not giving fiscal policy a pass."

The Biden administration's fiscal stimulus was developed within the intellectual framework that the Hewlett Foundation helped create. In 2021 Mr. Bernstein told the Times that the American Rescue Plan's purpose was to "run the economy with a little more heat"—that is, to set aside inflationary concerns in favor of faster labor-market gains. "We certainly

got more heat than I envisioned at the time," he now admits, but he adds that 20-20 hindsight was a luxury the administration couldn't afford during the pandemic.

What about 20-20 foresight, which inflation-wary dissenters such as former Treasury Secretary Larry Summers offered early in 2021? It was the responsibility of the president's political advisers, and of the president himself, to weigh the risks of pedal-to-the-metal economic stimulus. Mr. Biden should have understood the risks of rising prices: He was already in his second Senate term when inflation undermined President Jimmy Carter's administration.

Despite presiding over a slow recovery from the Great Recession, President Obama comfortably won re-election. Ms. Harris wasn't so fortunate. That's because while unemployment disproportionately affects a portion of the electorate, inflation hits everyone— especially workingclass Americans who can't evade its effects.

The Hewlett report cites the need for alternatives to neoliberalism that can attract a multiracial coalition that "benefits all." But the hot economy had the opposite effect, hurting nonwhite working-class voters and driving them to the Trump column.

Hewlett was right about the need for alternatives to the economic policies of recent decades. But in a democracy, such policies must pass the test of public approval. Pretending inflation wasn't a big deal didn't and won't.

By William A. Galston

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