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The risk of inflation cannot be our priority:
The effects of Biden's economic policy

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Today we are going through a deep economic crisis, different from the ones that we were accustomed to. It was brought on by an apparently extraneous cause, the Sars-Covid 19 virus. But the way our lives are organised – urban crowding, relationship with the environment, climate, migratory congestion and the speed of travel – accounts at least in part for the pandemic. It is a crisis that calls for immediate response in the short term and structural changes in the long run.

In this perspective, we must not fail to recognise the major economic discontinuity that has come about, marking the end of the 50-year dominance of the neo-liberal economic paradigm.

A different crisis

Once the virus is wiped out, economic recovery may prove faster than in previous post-crisis experiences. Especially if the governments promptly get the measures off the drawing board.

The halt on business activities has hit the "real" part of the economy. The central banks, beginning with the ECB, rapidly put a credit policy in place to relieve firms and governments of their debt burdens. It is a shrewd monetary policy that, together with fiscal adjustment by the EU Member States, will open the way to fast economic recovery, faster than after the 2008-09 crisis. This time firms will not have to go through portfolio rebalancing before they return to a long-term investment policy thanks to the emergency procedures and the promptness and quality of the public interventions.

The United States has already approved a 1900-billion-dollar recovery plan which, if completed with the tranche awaiting Congress' approval, will be notching up 6000 billion – 27% of the United States' GDP, equalled proportionately by Singapore (27% of its GDP). Meanwhile Australia's plan amounts to 18% of its GDP and China's 10%. Direct intervention is more limited in Europe, but it is completed with debt relief measures, decisively expansive monetary policy and investment policies.

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In a nutshell, policy to boost recovery has not concentrated on the financial systems with the costly rescue of banks, and financial intermediaries, perceived as unfair and ineffective in 2008-09. This time public intervention has first addressed the needs of the citizens hit by the crisis, and only afterwards the firms. Furthermore, and most importantly, today governments and central banks are not relying on a counter cyclical intervention to address the economic crisis within a Keynesian approach. Indeed, they are setting up more ambitious, long-term policies to promote a different pattern of growth, one that is environmentally sustainable and socially less unjust.

Inflation risk?

Economists, above all in the US, are weighing up the chances of these massive interventions generating inflation. However, these worries seem to be prompted more by the political reaction of the Republicans, who are set on curbing Biden's interventions, than by any consideration of economic fundamentals. The central banks are tracing out a reassuring scenario. Federal Reserve Chair Jerome Powell expects inflation figures to be a little higher than 2%, but only temporarily. The European Central Bank shows similar expectations, while the World Bank does not expect inflation to exceed 2%, although uncertainty is heightening price volatility.

Measures that not only fuel a devasted economy with liquidity but also finance infrastructures, industry and employment are not inflationary. Investments in infrastructure will increase supply and enhance productivity, improving the stock of public capital.

In the United States, growth is expected to be somewhere between 4 and 6% in 2021. China's plan (1400 billion dollars) includes investment in new cutting-edge digital infrastructures, from 5G and artificial intelligence to the Internet of things; and China's GDP growth is expected to exceed 6% in 2021. Europe is aiming at recovery through the green economy, research in new, less polluting materials (green hydrogen, among others), pharmacological research and enhancement of health services, anticipating growth of just over 3%. Finally and most importantly, Europe's support measures entail stringent policy guidelines on Member States' spending, designed to orient growth towards respect for the environment while curbing social injustices.

A farewell to economic neo-liberalism

Industrial policy is back at the centre of public policies after 50 years of ruinous ideological exclusion. However, a pillar is missing in the picture of public intervention, namely the formation of a competent, responsible technical administration, similar to the upgrading under US President Lyndon Johnson in the 1960s, or like the administration established in Italy in the early 20th century, which was able to provide competent guidance in the governments' policy choices. These models have nothing to do with the PA inspired by neo-liberal ideology in the "new public management".

As neo-liberal policy ineluctably continued to advance for more than thirty years, the institutional pillar grew ever weaker, producing negative effects on the competencies and role of the public administration and having disastrous social consequences, which are evidenced by increasing inequality, scant protection for citizens and essential services falling into short supply. These consequences can be seen in the political reaction of large swathes of the population left out from the benefits of the late 20th-century technological revolution but plagued by job loss and the lack of services.

In the meantime, a small cluster of entrepreneurs in the innovative sectors have accumulated immense amounts of wealth thanks to monopoly revenues, often gained by virtue of legal monopolies. The crisis has shown that the situation calls for remediation. In the United States, a firm stand is being taken by Janet Yellen with her proposal to the G20 for global taxation on the multinationals in those sectors. Europe can share this approach, and Italy should give it full support. Furthermore, a global carbon price, to be agreed upon at the COP26 in Glasgow, would contribute to levelling the global playing field toward a socially and environmentally sustainable recovery.