Bidenomics

Band Aid or Cure against Inequitable Social Development?

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President Biden assumed office amidst unprecedented socioeconomic challenges. Rising income inequality and inequality-related challenges top his agenda. His focus has been on jobs, health, education, and other pressing social issues.

Some observers conclude that Biden is transforming the United States into a more European social market economic system. Europe's longer history in addressing inequitable social development is reflected in various metrics. Most European countries specifically appear more effective in correcting pre-tax income inequality through redistributive measures. The U.S., by contrast, is confronted with greater overall challenges regarding well-being (happiness), education, and public health.

To evaluate Biden's economic plan, it is necessary to have a discussion of it in the context of existing economic philosophies. This paper highlights notable transatlantic differences in the interpretation of different economic philosophies. This is particularly true for classical and Keynesian economic thought. Classical economic thought has provided the theoretical bases to legitimize Europe's more active role of the state. For Keynesian economics, which has influenced the U.S. more, it is the other way around. Moreover, European economic policy has been characterized by greater consistency in the spirit of a social market economy, whereas U.S. economic policy has shown greater swings between Keynesian and neo-classical economics.

Main differences between European style social market economics and U.S. economic policies refer to the areas of health, education, social security, and competition policy. In Europe health insurance is mandatory, education free, social security generous, and competition policy more focused on the prevention of actual market power rather than hypothetical efficiency gains from mergers and acquisitions.

Many people in the U.S. mistake Europe's social market economy for socialism, but for Europeans the social market economy means competitiveness, balancing market
freedom with equitable social development, and being responsive to market failures. Likewise, many people in Europe mistake the U.S. for the land of infinite opportunities, but for many U.S. citizens U.S. capitalism means insufficient opportunities to access health care, education, social security, and career prospects. But because of more market-failure correcting regulations, Europe is faced with less income inequality and inequality-related social problems.

This report posits that while the U.S. and Europe seem to converge on the objective to balance economic freedom with equitable social development, economic policies are unlikely to converge as well. The historical trajectories and socioeconomic challenges on each side of the Atlantic are too divergent. European social market economics was a new start after World War II. Biden wants to introduce a course correction. European social market economics rests on “order policy,” limited governmental discretionary policy, and a greater social responsibility by everyone to finance market-failure corrections in health, education, and social security. Bidenomics resembles more “Big Push” development economics. Lastly, Europe has always had less tolerance for market concentrations than the U.S. For Biden to transform the U.S. into a more European system, a much greater emphasis on competition policy would be needed. Without mastering the competition challenge, Bidenomics will be a band aid, not a cure.
1. Introduction

Joe Biden became the 46th President at a time when the United States was confronted with extraordinary socioeconomic challenges. Political polarization that was never seen before characterized the 2020 election campaign. On January 6, 2021 the political polarization cumulated in an attack on the U.S. Congress by Trump supporters who refused to accept the election results.

The country’s political polarization reflects increasing socioeconomic polarization. Inequitable socioeconomic developments are mirrored in a widening gap in access to health, education, social security, and jobs, often along racial lines. The Covid-19 pandemic has widened this gap. The poor, Blacks and Hispanics have been more likely to contract the virus, lose their job, and be without a social safety net.

Considering the U.S.’s challenges, President Biden’s campaign slogan “Battle for the Soul of the Nation” seems justified. But will his socioeconomic program heal the soul of the nation, or just put a band aid on it that might not stick for long?

Key pillars of the Biden agenda are:

1. Increasing public investments, especially in the areas of climate neutrality and more affordable public health and education (“The American Jobs Plan”),

2. Redistributing income, especially through an increase of the minimum wage, higher corporate taxes, and a tax relief for poor families (‘The American Families Plan”),

3. Emphasizing a “fairer” trade regime that is inherently not unconditionally free, but that needs to address trade’s impact on U.S. workers, market access conditions of U.S. firms abroad, and prevailing market conditions in trading partners’ countries, and

4. Strengthening of competition policy.

Section two of this report analyzes the socioeconomic challenges that the Biden administration inherited. Special emphasis is given to the problem of rising income inequality and other income inequality-related issues. A major result of this discussion is that the U.S. has accumulated socioeconomic challenges that are often unmatched from an internationally comparative perspective. To illustrate the U.S. uniqueness, this report will regularly compare the U.S. to Europe and Germany.
A comparison of the U.S. and Europe is useful because some observers argue that Biden's economic agenda attempts to transform the U.S. into a more European-style social market economy. Other commentators see the U.S. under Biden becoming a Keynesian economy. Many analysts even equate Biden's economic agenda with socialism.

This report adds to the various economic labels from a new perspective. It argues that Bidenomics is more oriented towards classical free market liberalism, and less towards mainstream Keynesian economics as some observers may suggest. This report also highlights parallels to Schumpeter's prophecy of socialism. Schumpeter argued that capitalism tends to generate highly concentrated and efficient economic conglomerates which deprive many citizens of their desire for self-realization. Citizens will therefore vote for quasi-socialist redistributive measures. Bidens' ascend to presidency shows strong parallels to this logic, but this study argues that there is nothing socialist about Bidenomics. Instead, Biden's economic vision is much more in line with the normative assumptions of a social market economy, which emerged in Europe as an alternative to socialism and laissez-faire capitalism.

This report concludes that a transformation of the U.S. towards a European-style social market economy is unlikely for at least two reasons. The first is that U.S. politics has become too polarized. Whereas the social market economy has become a politically unifying concept in Germany and Europe, the idea of a social market economy seems unlikely to unify Democrats and Republicans. The second reason is that a social market economy is foremost a competitive market economy, and access to competitive market opportunities considered a driving force behind equitable social development. However, more economic freedom in the U.S. has led to more market concentration and less competition than in Europe. Conversely, more regulation in Europe has led to less market concentration and more competition than in the U.S. Introducing more competition on the U.S. economy's supply side will be Biden's greatest challenge. Unless Bidenomics will succeed in making the market and competition again a driver of equitable social development, Bidenomics will end up being a band aid, not a cure.
Rising Income Inequality

Income inequality is a rising challenge in many countries that threatens social peace. From a comparative perspective, these deteriorating dynamics have been particularly strong in the U.S.

Income inequality as a social challenge is as old as political and economic philosophy. Aristotle as early as the fourth century BC reasoned that:

“[…] democracies are safer and more permanent than oligarchies, because they have a middle class which is more numerous and has a greater share in the government; for when there is no middle class, and the poor greatly exceed in number, troubles arise, and the State soon comes to an end.” (Aristotle and Jowett, 1899)

Similarly, Adam Smith in the eighteenth century remarked:

“No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.” (Smith, 2007)

On June 22, 2018 at the 38th session of the Human Rights Council, Philip Alston, special U.N. Rapporteur on Extreme Poverty and Human Rights and Professor of Law at New York University, raised concerns regarding the U.S.’s continued ability to be “flourishing and happy” because

“The combination of extreme inequality and extreme poverty generally create ideal conditions for small elites to trample on the human rights of minorities, and sometimes even of majorities. The United States has the highest income inequality in the Western world, and this can only be made worse by the massive new tax cuts overwhelmingly benefiting the wealthy. At the other end of the spectrum, 40 million Americans live in poverty and 18.5 million of those live in extreme poverty. In addition, vast numbers of middle class Americans are perched on the edge, with 40% of the adult population saying they would be unable to cover an unexpected $400 expense.” (Alston, 2018)
When looking at OECD income inequality data, the U.S. may not be the most, but is among the most, of unequal countries. When calculating the average Gini coefficient from the most recent OECD (2021) data, which evaluates 40 countries from 2015-2019, the U.S. ranks the 14th most unequal country before-tax, and the 7th most unequal country after tax. Compared to the U.S., Europe’s traditionally stronger emphasis on equitable social development is mirrored by the fact that, except for Bulgaria, some EU countries like France, Italy, and Spain rank more unequal before tax than the U.S., but less unequal after tax (Illustration 1).
Empirically, rising income inequality is a general phenomenon of economic development that can be observed not only in the U.S. but in Germany and Western Europe as well. According to the World Inequality Database (2021), the U.S. pre-tax Gini coefficient increased by 23.9% from 0.47 in 1980 to 0.58 in 2019. Over the same period, Germany’s pre-tax Gini coefficient increased by 20.7%, from a level of 0.41 in 1980 to 0.49 in 2019. For Western Europe as a whole, pre-tax inequality increased by only 11.4%, from 0.42 in 1980 to 0.47 in 2019. Available data therefore suggests that inequality is both more prevalent and more dynamic in the U.S. than in Germany and in Western Europe (Illustration 2).

Illustration 2: Pre-Tax Income Gini Coefficient – U.S., Germany, and Western Europe 1980-2019

Source: Constructed from World Income Inequality Database (2021).

Equitable socioeconomic development matters for the overall good of society for many reasons. Individuals in more equitably developing countries are happier, healthier, and better educated. These aspects will be discussed in the next sections.

Declining Happiness

On average, more unequal countries are less happy. In recent years, the level of happiness has decreased in the U.S. The same trend, however, cannot be observed in all countries with rising income inequality. Germany, for example, has increased its happiness level over the same period and even surpassed the U.S.

The 2021 World Happiness Report details the results from a survey in which people report their self-perceived happiness on a “Position in Life Ladder”- scale ranging from zero to ten, with higher scores indicating more happiness. (Helliwell et al., 2021) In this ladder the U.S. ranks 19th. Most Western European countries, including Germany, are found to be happier than the U.S. Yet this has not always been the case. In 2007, before the Great Recession, people in the U.S. had been happier. What happened since then
is graphically summarized in Illustration 3, which shows that between 2007 and 2020, Germany witnessed an upward and the U.S. a downward trend in “happiness.” In 2015 Germany surpassed the U.S. in terms of the “happiness score.”


However, it is important to note that the differences between Germany and the U.S. are from a global comparative perspective marginal. From such a perspective both the U.S. and Germany score among the happiest countries. What should be of concern is the trend, not the level. From an absolute perspective both Germany and the U.S. are still among the happiest countries in the world as is shown in Illustration 4, which also indicates, more importantly, a strong inverse relationship between happiness and income inequality.

The General Social Survey (online) also reports a general downward trend in happiness for the U.S. The percentage of people who consider themselves as “Very Happy” dropped from an average of 34 percent between 1972 and 1976 to an average of 30 percent between 2014 and 2018. When examining five-year averages, the downward trend in “Happiness” is very consistent.

Compared to many other countries, happiness research is more complex in the U.S. with substantial differences between Blacks and Whites. According to Iceland & Ludwig-Dehm (2019), the happiness gap between Blacks and Whites had been narrowing between 1972 and 2014. Yet, Ingraham (2020), citing a Gallup polling, reports that the “Trump era has ushered in the largest happiness gap between white and nonwhite Americans in nearly two decades,” thus reversing the previous trend.

From a cross-sectional perspective, there is also a strong positive relationship between income per capita and happiness. On average, richer countries are happier. Yet there is also a paradox, which is known as the Easterlin Paradox (Easterlin 1974), named after its discoverer Richard Easterlin. The Easterlin Paradox states that as income increases, the magnitude of happiness levels out. In fact, as shown in Illustration 3 happiness not only stagnates but can deteriorate as well.

In 2017 and 2018 economist Jeffrey Sachs addressed the Easterlin Paradox, noting that factors other than income must matter. For Sachs, these indicators are loss of social capital and deteriorating public health conditions. (Helliwell et al., 2017; Helliwell et al., 2018)

**Deteriorating Public Health**

Inequality is increasingly suspected to undermine public health. This hypothesis has a lot of support in the U.S. Lynch et al. (2004) summarize their review of the literature as follows:

“Income inequality may, however, directly influence some health outcomes, such as homicide in some contexts. The strongest evidence for direct health effects is among states in the United States, but even that is somewhat mixed. Despite little support for a direct effect of income inequality on health per se, reducing income inequality by raising the incomes of the most disadvantaged will improve their health, help reduce health inequalities, and generally improve population health.” (Lynch et al., 2004)

Countries with higher per capita incomes are, on average, healthier. They have, for example, lower infant mortality rates and higher life expectancies, which are key indicators of public health. Yet, some of these public health benefits are offset by other public health risks that increase with incomes. In addition to mental health-related societal burdens, there are particularly behavioral and metabolic risks like drug abuse and obesity.
Developed by the Institute of Health Metrics and Evaluation (IHME), Disability Adjusted Life Years (DALYs) have become the go-to metric to assess public health risks and causes of disabilities. DALYs measure the healthy life years that are lost due to premature death or years lived with disability.

IHME distinguishes between health risks (environmental, behavioral, and metabolic) and causes of disabilities (communicable and non-communicable diseases and injuries). DALYs are prorated per 100,000 population. For example, a DALYs value of 3,000 for a certain year, and risk or cause, implies that a population of 100,000 loses a total of 3,000 years due to premature death or disability.

If one compares the burden of disease in terms of DALYs from drug use (a risk), opioid use (a cause), self-harm with fire weapons and others (another cause), and the behavioral risk of high body mass index, the following trends emerge: Drug use related DALYs are not only much higher in the U.S. than in Germany and the European Union, but they have also been steadily increasing in the U.S. while in Germany and the European Union they have stayed relatively constant.

Self-harm from firearms and other means also shows a higher level in the U.S. than in Germany and the EU, again with a strong upward trend compared to relatively stable DALYs in Germany and the EU. Lastly, the burden of disease attributed to high body mass index was still higher in Germany and the EU until the mid-1990s, but Germany and the EU show a general downward trend, at least between 1990 and 2019, whereas the trend in the U.S. has been steadily increasing since 1990 (Illustrations 5 to 8).

**Illustration 5:**
DALYs from Drug Use in the U.S., Germany, and the EU

SOURCE: Constructed from IHME (online).
complex and include, but are not limited to, racial inequity, weak social security systems, causes of the mental health and substance abuse crisis. These root causes are highly inequality and promotes economic development. In the 18th century, Adam Smith argued that access to education reduces the costs of labor and promotes economic growth. For example, Germany.

Richer countries have, on average, higher educational attainment levels. Yet there are vast differences. Available data suggests that relative to its income, the U.S. educational system is much more costly for students in the U.S. than in other countries.

In March of 2021, the Biden administration announced to make $2.5 billion available for a program that aims to address the root causes of these challenges, which to bring under control will require public investments at several fronts.

Illustration 6: DALYs from Opioid Use Disorders in the U.S., Germany, and the EU
Illustration 7: DALYs Attributable to Self-Harm in the U.S., Germany, and the EU
Illustration 8: DALYs Attributable to High Body Mass Index in the U.S., Germany, and the EU
The above data suggests a certain distinctiveness of the U.S. in terms of public health challenges. To bring these under control will require public investments at several fronts. In March of 2021, the Biden administration announced to make $2.5 billion available for treatment and prevention of mental illness and substance abuse (U.S. Department of Health & Human Services, 2021). Of course, such a program can barely address the root causes of the mental health and substance abuse crisis. These root causes are highly complex and include, but are not limited to, racial inequity, weak social safety net systems, and social immobility among those at the lower rungs of the income ladder. As for the latter aspect, education plays a crucial role.

**Falling behind in Education**

Wealthier countries have, on average, higher educational attainment levels. Yet there are vast differences. Available data suggests that relative to its income, the U.S. educational system is much less of a driver of social mobility than in, for example, Germany.

For Adam Smith, access to education reduces inequality and promotes economic development. In the 18th century, he wrote:

“The public can impose upon almost the whole body of the people the necessity of acquiring the most essential parts of education, by obliging every man to undergo an examination or probation in them, before he can obtain the freedom in any corporation, or be allowed to set up any trade, either in a village or town corporate.” (Smith, 2007)

For Nick Hanauer, entrepreneur, venture capitalist and education reform activist, income inequality and poverty are the root cause of the U.S.’s educational system. He writes:

“To be clear: We should do everything we can to improve our public schools. But our education system can’t compensate for the ways our economic system is failing Americans. Even the most thoughtful and well-intentioned school-reform program can’t improve educational outcomes if it ignores the single greatest driver of student achievement: household income.” (Hanauer, 2019)

Income inequality correlates positively with education inequality within countries. In the U.S., just as with income inequality, the link between income and education inequality overlaps moreover with race, too. This thereby makes inequality a socially more complex challenge in the U.S. than in, for example, Germany.

Besides social challenges, philosophical approaches and historical experiences of how governments provide education also separate the U.S. from Germany. Philosophically, Germany, and many other European countries, emphasize more the public goods character of a well-educated population, arguing that this contributes to more equal, peaceful, and faster development. The U.S., on the other hand, emphasizes more the
private character of a well-educated population, arguing that most of the returns from investments in human capital are private. As a result, the costs of access to education differ among countries such as Germany and the U.S.

These philosophies emerged from different historical paths. Modern Europe's economic roots reach back to the medieval guild system. Guilds were a two-edged sword. On the one hand, guilds had and abused market power, especially on the demand side for factor labor, and they were typically protected by political elites. On the other hand, medieval guilds also operated in a patchwork of small nation states. Specialization in one or a few high-quality products was therefore an effective means to compete across borders. To assure quality, guilds demanded and enforced high standards in production and training of the workforce. The legacy and culture of different trades demanding strong educational standards has prevailed until today. The fact that Germany's economy developed a strong base of small- and medium-sized high-tech companies, which are sometimes referred to as hidden champions, and a dual educational system must be seen in this specific historical context.

The U.S. had a different trajectory. When industrial development took off in the 19th century during the first globalization wave, its domestic market size was an advantage, and the U.S. economy could develop much more competitively from the very beginning without having to source-in education as was the case in Europe. (Epstein, 1998; Ogilvie, 2011; Ogilvie, 2019)

As a result of these different historical trajectories, a predominantly public and dual education system evolved in Germany, and a predominantly private and non-dual education system in the U.S. As for vocational training, German companies have in-sourced education, U.S. companies have out-sourced it.

The different education systems also explain differences in social mobility. In Germany, household income is much less of a critical determinant of the decision to pursue higher education than is the case in the U.S. Moreover, Germany's dual education system provides adolescents with an attractive alternative to higher education. In the dual education system, apprentices not only gain hands-on experience and trade-related academic education in parallel, but also the opportunity to be hired by the company where the apprentice received their training. In practice, those in an apprenticeship have some level of job security. (Protsch and Solga, 2016)

The absence of a dual education system in the U.S. requires individuals to carry the financial burden of acquiring vocational training themselves. Academic and hands-on training is more a sequential process, and there are fewer opportunities to grow with.
a company early on. As a result, less people will pursue higher education or vocational education in the U.S. than in Germany. (Spees, 2018) Accordingly, inequality resulting from the lack of educational choices will also be less in Germany than in the U.S.

Available data suggests that there is a correlation between the cost of higher education and income inequality. This is shown in Illustration 9, which displays on the y-axis the pre-tax Gini coefficient and on the x-axis tuition costs.

![Illustration 9: Income Inequality and Tuition Costs](image)

Intuitively, more unequal countries have, on average, lower aggregate educational attainment scores. This is shown in Illustration 10 for the Pisa study variable “high proficiency in math, reading, and sciences for upper secondary levels.”

![Illustration 10: Percentage of Population with High Proficiency in Math, Reading, and Sciences (Upper Secondary Education) vs. Gini](image)

What explains the observation that average educational attainment levels in equal countries exceed those of unequal countries? A closer look at the data provides the answer. In more equal countries, the percentage of students with high educational attainments is greater than in unequal countries among both the poor and the rich.

A closer look at differences between Germany and the U.S. demonstrates this more clearly (Illustration 11). Fifteen percent of the poorest German students have high proficiency in math, compared to 8.6 percent of the poorest students in the U.S. Yet, 67.7 percent of the richest students in Germany have high proficiency in math, compared to 42.6 percent of the richest children in the U.S. Thus, despite greater income equality in Germany, Germany has greater absolute education inequality when measured by the difference in the proportion of high-level proficiency between the richest and poorest (47.7 percentage points in Germany vs. 34 percentage points in the U.S.). The picture is similar when comparing high proficiency proportions by income quintiles for reading and sciences.

In sum, what matters for equitable social development is not the absolute education difference between the poor and the rich, but predominantly the educational level of the poor. The higher the educational level of the poor, the lower is income inequality, even if higher educational levels of the poor correspond with an absolute greater knowledge gap to the rich.
Decreasing Competition

As opposed to Germany, the U.S. has typically applied different policy paradigms in a more extreme fashion. Since World War II and the oil price crises of the 1970s, the U.S. had been much more entrenched in Keynesian economics. During the oil price crises, Germany was primarily concerned with inflation, the U.S. with unemployment. Germany was more able to absorb unemployment than the U.S. because of its effective social safety nets. Germany also, and probably naively so, tried to reduce aggregate demand with bans on driving and the introduction of so-called car-free Sundays. It came to no surprise that Germany’s car-free Sundays had a negligible effect on the global fight against inflation, as opposed to their effects on birth rates nine months later. Yet, the lesson from the oil price crises is that Europe has a greater tradition in applying the precautionary principle in social safety nets and to seek answers to economic shocks on the supply rather than the demand side.

The second oil price shock of 1979 terminated the post-World War II Keynesian era and opened the door for a neoliberal counterrevolution. This counterrevolution was headed by Margaret Thatcher in England, Helmut Kohl in Germany, and Ronald Reagan in the United States. Yet the U.S. has implemented reforms more forcefully than any other country.

In the U.S., this counterrevolution began with a fight against inflation, which had topped ten percent by the end of the 1970s. For the chairperson of the Federal Reserve, Paul Volcker, who had originally been appointed by Jimmy Carter, no economic recovery would be possible without first “slaying the beast of inflation.” The cure consisted of drastically tightening the money supply. This caused interest rates to reach around 20 percent in the early 1980s and led to a major recession, causing some observers to conclude that the cure was more expensive than the disease. Nevertheless, Paul Volcker’s fight against inflation eventually paid off and restored faith in the U.S. dollar. A series of deregulations, privatizations, tax cuts, and trade liberalization then unleashed the market’s productive and innovative forces, which set the U.S. on a growth path that was almost uninterrupted until the 2008 Global Financial Crisis. (Stanislaw and Yergin, 2008)
The neoliberal counterrevolution is often criticized for not having delivered as promised on its trickle-down effects. In fact, real wages of workers declined in the U.S. over the 1980s until the early 1990s, before they rose again. The same trend could not be observed in Germany, where real wages have continuously increased. Illustration 12 visualizes this trend for the period between 1964 and 2006.

What can explain these different dynamics between Germany and the U.S.? One plausible explanation is that market liberalization of the 1980s did not only trigger more competition, but allowed for greater market concentrations, which in turn weakened workers’ bargaining power.

While evidence on market power in labor relations is difficult to verify directly, a comparison of the density of small- and medium-sized enterprises (1-249 persons employed) and large enterprises (250+ persons employed) may provide indirect evidence for the hypothesis that the economic structure matters. As can be derived from Illustration 13, Germany had between 2008 and 2015 on average 26,611 small- and medium-sized and 128 large enterprises per million people. The U.S., on the other hand, had, on average, only 13,292 small- and medium-sized and 77 large enterprises. Thus, compared to Germany, the average U.S. worker has much fewer choices to compete for employment.

Illustration 12: Real Wages of Workers in Germany and the U.S., 1964-2006
As Illustration 14 shows below, the neoliberal reforms since the 1980s also led to a substantial decline in manufacturing and industry jobs, not only in the U.S., but also in other countries, such as Germany. Between 1970 and 2019 manufacturing's share of GDP decreased in Germany from 28 to 22 percent and in the U.S. from 13 to 11 percent. (United Nations, online) In terms of employment in industry and construction, both Germany and the U.S. have seen a downward trend since 1970. The level of employment prorated per 1,000,000 population, however, is over the 50 years on average, 57 percent higher in Germany.

The disappearance of manufacturing jobs is an inequality driver. Those who lose their jobs in manufacturing sectors need to migrate to service jobs as a second-best choice where they do not immediately have the required skills, and therefore need to accept lower wages. (Novta & Pugacheva, 2019)
The above stylized facts illustrate key socioeconomic areas such as inequality, happiness, health, education, and competition, especially when comparing the U.S. to Germany and/or Europe. The next section assesses Biden’s economic agenda from a philosophical-economic perspective. Will it be a band aid or a cure to the U.S.’s socioeconomic challenges?
3. Which Philosophical Pillars Best Define Bidenomics?

Bidenomics is more Classical Economics than Critics may Admit

If one searches on Google “Biden AND socialism” one gets more than six million hits. Labeling Biden’s economic agenda as socialism has been a popular strategy by his Republican opponents. Democrats, of course, have done very little to disperse such criticism by using the term socialism arbitrarily themselves. From a European perspective, this strategy is difficult to comprehend. It might be political romanticism that only can happen in a place that has never witnessed socialism.

Moreover, a closer look at the various visions proposed by Democrats during the 2020 election campaign reveal that their political agenda has very little in common with socialism. Instead, their programs often envision corrections to competitive market failures. Accordingly, from a European perspective, if Democrats had replaced the term “socialism” by “market failure corrections” or “competition strengthening” they probably would have gained more support from the middle of the political spectrum than what they may have lost on the left fringe. Either way, associating Biden’s economic agenda with socialism makes very little sense when confronted with actual socialist philosophy. In fact, it makes much more sense when discussing Bidenomics in the context of classical economics.

The classical perspective on equitable social development is controversial and Adam Smith, the father of classical economics, is often misappropriated by libertarian ideology. Of course, Smith concluded that

“It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people.”

(Smith, 2007)

A functioning economy must serve all people. At the same time, Smith did not claim that government, unlike as the 17th century political philosopher John Locke asserts, “has no other end but the preservation of property” (Locke, 1814) or, as von Mises in the 19th century concludes, should be limited to “the protection of property, liberty, and peace.” (Mises, 2001)
The role of government is often confined to protect property and peace. Smith instead identified an often-dismissed role of government with regard to access to economic opportunities for disenfranchised members of society. This passage sets Smith's record straight:

“According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works, and certain public institutions, which it can never be for the interest of any individual, or small number of individuals to erect and maintain; because the profit could never repay the expense to any individual, or small number of individuals, though it may frequently do much more than repay it to a great society.” (Smith, 2007)

In addition to education, Adam Smith was also concerned with workers' health in an unregulated labor market, emphasizing that

“Workmen, on the contrary, when they are liberally paid by the piece, are very apt to overwork themselves, and to ruin their health and constitution in a few years.” (Smith, 2007)

which is why

“A plentiful subsistence increases the bodily strength of the labourer, and the comfortable hope of bettering his condition, and of ending his days, perhaps, in ease and plenty, animates him to exert that strength to the utmost.” (Smith, 2007)

Some may interpret this last quote as a call for a government administered minimum wage. Others may see it as an appeal to entrepreneurs to voluntarily pay wages above the market rate to express their appreciation for workers and to increase their loyalty (so-called efficiency wages). Either way, as can be easily seen, Adam Smith's thoughts may be hijacked by different ideological camps.

Considering the above, how much classical liberalism can be identified in Biden's economic agenda? Clearly, Biden's agenda is classical in the sense that he shares with classical liberalism mostly sympathy for the adverse effects of laissez-faire. Yet resentments against adverse effects of unregulated market economics must not be equated with an anti-market attitude.
**Bidenomics is less Mainstream Keynesianism but more “Big Push”**

John Maynard Keynes was not explicitly concerned with equitable social development. His focus was on the response to major economic shocks, such as the 1929 Stock Market Crash and its prevention from spilling over into political chaos with unforeseen outcomes. History has shown how economic turmoil, mass unemployment, and spreading poverty have regularly derailed democracies and replaced them with authoritarian regimes. Germany learned this lesson the hard way in 1933 when the Nazis rose to power in the slipstream of the Great Depression. More recently, many Latin American countries turned towards socialist regimes after neoliberal reforms under the label of the Washington Consensus failed to deliver on its promise of trickle-down effects.

Paul Krugman rightly evaluates Keynesian economics when he writes that “Keynes was no socialist—he came to save capitalism, not to bury it.” (Krugman, 2018) Yet, in political debate, any kind of government activity is quickly associated with socialism. At the same time, Adam Smith’s calls for a more proactive role are often benignly neglected. It is therefore important to emphasize that socialism rests on central planning and the collectivization of the means of production. Any government intervention that leads to an expansion of physical infrastructure such as ports, highways, and railways that complement and expand private economic activity is not socialism but is the promotion of competition through the provision of public goods. The same holds for mandatory health insurance and public education, which provide citizens with opportunities to live an active and healthy life and to form human capital to stay competitive in the marketplace. Thus, there is a role of the government beyond the nightwatchman state and that is to increase a country’s competitiveness.

The idea of Keynes was as follows: Before the 1929 Stock Market Crash the economy was in full employment and together with the existing capital stock, the economy should have been able to produce as much in 1930 as it had produced in 1928. Yet, the reason why output fell in 1930 was because of the unfortunate exogenous shock, the 1929 Stock Market Crash. This shock caused firms to accumulate losses, banks to shut down, and people to lose their savings so that aggregate demand in 1930 fell below the potential output of what had still been possible in 1928.

From a classical economic perspective, one can now argue that markets will restore equilibrium, at least in the long run. Excess labor supply will lead to lower wages, lower wages encourage new hires, new hires at lower wages restore firm’s profits, and the re-emergence of profits attract market re-entry with even more hires until the pre-crisis output and employment levels are restored. Yet, in the view of Keynes:

“But this long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again.” (Keynes, 1923)
For Keynes, the solution was not to wait for the invisible hand of the market to restore equilibrium in the long run, but to use the visible hand of government to expedite the process in the short run. Specifically, Keynes advocated for fiscal policy, meaning that the government borrows money and spends it to stimulate aggregate demand. For this purpose, government may expand or modernize existing infrastructure. Yet, every kind of governmental spending could classify as stabilization policy. What matters is to get money as quickly as possible back into people’s wallets. Then, because every dollar spent by the government will be spent several more times by its citizens; one dollar expensed by the government will increase output and income by more than one dollar.

Theoretically, stabilization policy may also include monetary policy. Under an expansionary monetary policy, the central bank buys government bonds in open market operations, which reduces bond yields and interest rates, and increases banks’ deposits and excess reserves. Lower interest rates and excess reserves then encourage economic actors to borrow more money and conduct more investments. Lower interest rates also encourage more debt financed private consumption and public borrowing.

Keynes prioritized fiscal policy. When the economy is not in need of more investment, lower interest rates would not encourage more of it, because capital is not scarce. Expansionary monetary policy will then lead to a liquidity trap. Because physical capital was abundant in the 1930s, but aggregate demand below potential output, only more demand for the existing capital stock would work. More demand for new capital would only have increased the already existing output gap.

Biden's American Jobs Plan is not a classical Keynesian program in the sense that it tries to close an output gap as occurred after the 1929 Stock Market Crash or the 2008 Global Financial Crisis. Biden's vision is not to conserve the status quo of the U.S. economy, as Trump had wanted, but to introduce an economic transformation. This makes Bidenomics much more a “Big Push” development economics.

Big Push is a subcategory of Keynesian theory, which is typically discussed in the context of developing countries. The basic idea is that without a Big Push, economic development will not come out of its starting blocks.

There are two approaches to the Big Push models: Balanced and unbalanced growth strategies. Balanced growth strategists like Ragnar Nurske, assume that small market sizes are responsible for the vicious cycle of development. When markets and purchasing power are small, investments in optimally sized capital stocks will not be feasible. Balanced growth strategists want to assure that all sectors of the economy grow at the same rate. This approach avoids, for example, that a textile company plans for more suits and dresses than what cotton and cloth can be produced. A balanced
growth strategy requires a substantial central planner role of the state. (Nurske, 1953) Post-World War II India is often attributed with experimenting with balanced growth.

Unbalanced growth strategists like Albert O. Hirschman, on the other hand, argue that the main problem is that investors do not receive any signals of profitable investment opportunities. By deliberately unbalancing the economy through partial planning activities, private sector activity will be stimulated, and entrepreneurial spirits awakened. Public investment strategies could target so-called social overhead capital (SOC) and directly productive activities (DPAs). Investments in SOC are projects that predominantly function as complements to private economic activities, such as investments in public health, education, transportation infrastructure, electricity, or steel production. Investments in DPAs, on the other hand, are specific industrial policies like the creation of an automotive, computer, or pharmaceutical industry. The idea is that regardless of whether a country first prioritizes DPAs or SOC, the other will follow. If development starts with DPAs, pressure for SOC will follow, and vice versa. (Hirschman, 1988)

Most development economists have a preference for unbalanced growth strategies, and within the unbalanced growth strategy a preference for prioritizing investments in SOC first. The advantages attributed to this approach are manifold. First, they require less central planning and focus more on traditional roles of the state, namely the provision of public goods. Second, investments in SOC create less dependencies between government and certain industries, which, once established, are difficult to disentangle. Third, starting with SOC provides greater entrepreneurial freedom and sets the economy on a path of greater competitiveness.

Biden’s American Jobs Plan and embedded infrastructure investments are seen by observers as a much-needed public investment. Moody’s Analytics, for example, summarize:

“There is no argument that the U.S. infrastructure needs are great. The nation has underinvested in infrastructure for decades. This weighs more and more heavily on businesses’ competitiveness and the economy’s productivity growth and is increasing our vulnerability to climate change. The plan’s proposed spending on infrastructure is large but spread over the next decade and paid for in significant part with higher taxes on corporations. Despite the higher corporate taxes and the larger government deficits, the plan provides a meaningful boost to the nation’s long-term economic growth.” (Moody’s Analytics, 2021)

Schumpeter’s Prophecy of Socialism and Biden’s Economic Agenda

Keynes was not without critics. His main intellectual rival was Joseph A. Schumpeter who targeted Keynes on philosophical and technical grounds. Moreover, Schumpeter did not only take issue with Keynes, but Marx as well.
Like Marx and Keynes, Schumpeter accepted the fact that markets are subject to inherent weaknesses that lead to economic shocks, unemployment, and inequality. Yet as opposed to Marx, who saw in such shocks the evil face of capitalism, Schumpeter saw in them the result of "creative destruction," which drives growth, efficiency, and development. Schumpeter was, accordingly, opposed to Keynes's idea to prevent the unfolding of "creative destruction" by restoring the pre-shock equilibrium through stabilization policy. Marx concluded that the market systems' alleged evilness will make a socialist revolution inevitable while Keynes considered the market system's weaknesses as fixable. Schumpeter also agreed with Marx that capitalist societies will transition towards socialism. Yet for Schumpeter this transition does not take place abruptly through a revolution as Marx suggested, but stealthily through democracy. Schumpeter rationalizes this transition sociologically. Competition will generate such highly efficient economic conglomerates that will make citizens feel alienated, bereft of human-centered space, and robbed of opportunities for self-realization. According to Schumpeter (2003),

"[s]ecular improvement that is taken for granted and coupled with individual insecurity that is acutely resented is of course the best recipe for breeding social unrest." (Schumpeter, 2003)

Biden's rise to the presidency resembles the Schumpeterian prophecy. Markets have seemingly produced large efficient economic enterprises from which large parts of the population feel increasingly detached, so that they seek quasi-socialist corrective measures through the democratic decision-making process. A study by JUST Capital found in a survey conducted in 2020 that "92% of Americans agree that it's important for large companies to promote an economy that serves all Americans, but only 50% believe that companies are actually doing that." (JUST Capital, online)

Biden is not a socialist who calls for the nationalization of the means of production and a central plan. However, Biden has made it clear that he seeks a stronger role of the state. Is he a Keynesian then? Not really. Keynes was concerned with situations in which the economy operates below potential output. Biden, however, envisions a transformation of the existing economy without facing a Keynesian output gap.

It may sound paradoxical, but a closer confrontation of Biden's economic plan with available economic philosophies suggests that Biden is neither a socialist, nor a mainstream Keynesian, but primarily a Keynesian development economist. This is particularly true for his plans to invest in climate neutrality, healthcare, education, and infrastructure, which are all Big Push social overhead capital (SOC) components.
Of course, there are also subtle differences between Biden’s Big Push today and, for example, Taiwan’s Big Push strategy after World War II. Traditionally, Big Push strategies assume a vicious cycle: Low incomes lead to low savings, low savings to low investment, and low investment again to low income. In the case of the U.S., Biden’s Big Push strategy is not a strategy to launch development, but is rather seen as a course correction to existing social and environmental developments.

The U.S. Transformation to a Social Market Economy will be Challenging

While Biden’s ascend to presidency shows strong similarities to Schumpeter’s prophecy, Bidenomics is far from realizing socialism. Instead, he is trying to avert it by transforming U.S. capitalism into a more European-style social market economy. But for such a transformation to succeed, much more is needed than reforms in public health, education, and the modernization of public infrastructure. A social market economy, at least according to its founding fathers, is predominantly a competitive market economy where the role of the state is to correct market failures with regulatory mechanisms and to provide public goods.

Otero-Iglesias & Frederico Steinberg (2021) looked at Biden’s first 100 days from the perspective of European social market economists, and noted:

“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 U.S. 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.” (Osterio-Iglesias and Steinberg, 2021)

Biden’s rhetoric is indeed very close to social market economic thought, but in terms of his policy agenda there is still one aspect missing, which would make Biden’s agenda look genuinely social market economic. This missing aspect is competition policy. As John Mauldin notes in a Forbes article entitled “America has a Monopoly Problem:”
“Three companies control about 80% of mobile telecoms. Three have 95% of credit cards. Four have 70% of airline flights within the U.S. Google handles 60% of search [...]. In agriculture, four companies control 66% of U.S. hogs slaughtered in 2015, 85% of the steer, and half the chickens, according to the Department of Agriculture [...]. Similarly, just four companies control 85% of U.S. corn seed sales, up from 60% in 2000, and 75% of soy bean seed, a jump from about half, the Agriculture Department says.” (Mauldin, 2019)

Concerns about rising market concentration are also frequently raised by others (see, for example, Wessel, D., 2018; The Economist, 2016). That something is different in terms of competition policy on each side of the Atlantic was also illustrated by Binyamin Applebaum, using the example of competition among airlines. He writes:

“The U.S. government allowed the industry to consolidate: during the Obama administration, the nation’s eight largest airlines paired off and became the nation’s four largest airlines, carrying more than 80 percent of domestic passengers. European regulators, by contrast, put limits on consolidation. They refused to let Ryanair buy Aer Lingus in 2007, and then refused again in 2013. As of 2018, the four largest European airlines – a list that includes Ryanair – controlled 45 percent of the market. Average airline ticket prices in the United States, in inflation-adjusted dollars, stopped falling around 2005. For the first time since the dawn of aviation, it is generally cheaper to fly in Europe than in the United States.” (Applebaum, 2019)

The absence of competition is also an increasing problem in health care markets. A 2020 American Medical Association Report entitled “Competition in Health Insurance – A Comprehensive Study of U.S. Markets” concludes:

“In sum, we find that the majority of health insurance markets in the United States are highly concentrated and that, on average, markets are more concentrated in 2019 than they were in 2014. Coupled with evidence on their anticompetitive behavior, this strongly suggests that health insurers are exercising market power in many parts of the country and, in turn, causing competitive harm to consumers and providers of care.” (American Medical Association, 2020)

When comparing U.S. and German health care costs, the following picture emerges. Compared to the U.S., Germany essentially provides universal health care, per capita expenditures on health are 42% lower, life expectancy is 3% higher, and the density of physicians per 1,000 population is 60% higher. (World Bank, online) These differences must not be explained by socialism vs. capitalism, but successful vs. unsuccessful market designs and regulations.
4. Conclusions

This report asked whether Bidenomics will be a band aid or a cure against inequitable social development. President Biden made clear that rising inequality and the associated socioeconomic ailments will define his agenda, which some observers equate with a Europeanization of U.S. politics.

A closer look at the trajectories of European and U.S. economic history suggests that a transatlantic convergence is unlikely. In Germany and Europe, the social market economy is a widely accepted political philosophy that has guided Europe’s economic agenda for more than seven decades. The U.S., on the other hand, has always been more experimental. The U.S. was much more Keynesian after World War II until the 1970s, much more laissez-faire since the 1980s until the 2000s, and much more Keynesian again after the Great Recession than Europe.

At no point since World War II have Europe and the U.S. been anywhere close in terms of social market economics. Since World War II, Europe has accumulated much more experience with universal health care, strong social safety nets, inexpensive education, different forms of education, and stricter competition policy. Believing that the U.S. can be transformed quickly into a European style economy is illusionary.

Yet, it is exactly the different approach to health care, social security, education, and competition that has allowed Europe to maintain more equitable social development than the U.S. Many of these policy approaches have grown in Europe over a long period of time and cannot be easily parachuted into the U.S.

It is doubtful that even if it were technically possible to introduce European-style social market economics within a short time that it would be politically viable in the U.S. U.S. politics has grown far more polarized over economic policy than Europe.

It is not unusual for U.S. politicians to equate social market economic elements like mandatory health care, free education, and strong social safety nets with socialism when Europeans perceive them as pillars of competitiveness and necessary corrections to market-failures. Likewise, for many Europeans it is unclear why advocates of social market economic ideas like mandatory health insurance would advertise them as socialist. Since World War II, the mutual understanding of each other’s economic system has likely decreased.
Biden's rise to presidency resembles the Schumpeterian prophecy in which the capitalist system becomes so successful that only a few super-efficient enterprises survive. While these enterprises might be highly efficient and innovative, they also promote individual insecurity and alienation (as opposed to Marxian exploitation) of the working class. In this Schumpeterian world, even if those on the lower rungs of the income ladder climb up slowly, they will resent the system if they lose sight of those in the higher rungs. Democracy will then transform itself into a quasi-socialist state that will be politically consumed by redistribution.

Of course, Biden's agenda is not all about redistribution, but is committed to reducing income inequality. If at all, Biden's agenda resembles European politics only in rhetoric. When comparing Bidenomics with the various lessons from history, Biden's agenda fits mostly Big Push development economics.

Any policy that emphasizes a lot of spending in the short-run will also produce short-run positive effects. The risks are lurking in the long run.

The first risk is that the economy overheats, and inflation increases. Since inflation hurts the poor more than the rich, inflation might undermine the original objective of reducing inequality, not to mention the other side-effects associated with getting inflation again under control.

The second risk is that the spending-boom deflagrates. Every dollar spent by Bidenomics will be spent several more times by its recipients. Yet, every dollar spent less will also not be available several more times when Bidenomics phases out one day, unless the supply side has grown so much that a reduction of fiscal policy leaves not behind a recession. Whether the supply side will have grown sufficiently to fill the gap when public spending will be reduced again is uncertain. When Reagan strengthened the supply side with deregulation and privatization in the 1980s, he was facing mostly inefficient public enterprises. Biden needs to confront highly efficient private companies, which is more difficult.

Returning to the original question of whether Bidenomics will be a band aid or a cure against inequitable social development, the best answer at this point is: It will be a band aid, but whether it will stick for long enough to allow for the cure remains to be seen.
References


References


In reference to Illustration 12 on page 19, how data was derived: No comparable series of real wages for the U.S. and Germany prior to 1991 from the same source was found. The graph shows for the U.S. the series “Average Hourly Earnings of Production and Nonsupervisory Employees, Total Private/Personal Consumption Expenditures: Chain-type Price Index” (Source: Federal Reserve Bank of St. Louis, online). The series contains monthly data, which were averaged per year. For Germany, the series “Indizes der durchschnittlichen Bruttoverdienste der Arbeiter in der Industrie (1913-2006)” (Source: Sensch, J., online) was used. This series, however, is based on nominal terms. The series “Consumer Price Index (2010=100),” available from the World Bank Development Indicators Database (online) was then transformed into a series with base year=2000, and nominal wages divided by this consumer price index to get a series in real terms.
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