

Biden's big bang budget?

We are getting used to seeing some massive numbers being thrown around when it comes to US government spending, but the latest budget spending plan is going to come up against major hurdles



US Vice President, Kamala Harris, discussing the American Rescue Plan

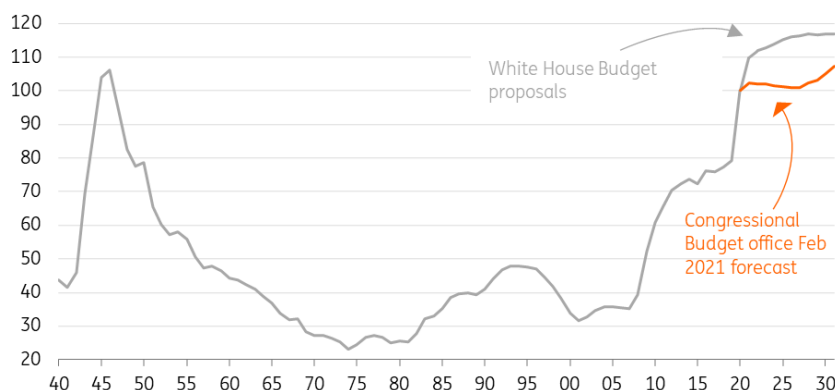
Spend, spend, spend

The US government response to the pandemic has been astonishing. Between them, Presidents Trump and Biden have overseen \$5tn of fiscal support, which undoubtedly helped to mitigate the economically damaging effects of Covid containment measures.

With the economy on the verge of having fully recovered all its lost output, President Biden is now pushing on with his key election promise of “Building Back Better” as he seeks to fulfil his vision of a more equitable, sustainable and greener America. This centres on the \$2.25tn infrastructure spending plan over the next eight years and a further \$1.8tn American Families Plan that includes money for health, education, welfare and childcare.

These proposals have now been formally wrapped up into President Biden's 2022 fiscal year budget plan that begins 1 October. Coming in at \$6tn of spending, up from the \$4.8tn price tag attached to President Trump's last annual budget, it also includes significantly more for the US military.

Federal government debt as a % of GDP 1940-2031



Source: White House, Congressional Budget Office, ING

Debt, debt, debt

Over the next decade, the budget proposals would add around \$14.5tn to the national debt, but it is also important to point out that the proposal includes delayed tax hikes on corporates and the wealthy that would rapidly erode the deficits and supposedly mean the spending plan is completely paid for after 15 years.

While those on the left have applauded the President (although many would like to have seen him go further), it's fair to say that critics are not as enthused. Senate Minority Leader Mitch McConnell labelled it a "socialist daydream" that would "drown American families in debt, deficits and inflation".

"You shall not pass!!"

In reality, this budget will not pass in its current form. It is better to view the plans as aspirational or a signal of intent. Normally, legislation needs a 60 vote Senate majority to pass, which is virtually impossible given the partisan nature of politics in the US today and the fact that the Senate is split 50-50.

In an effort to get at least some of his proposals through with bi-partisan support, President Biden has already offered to cut the infrastructure plan to \$1.7tn and could go even lower with Republicans holding out for a figure sub-\$1 trillion. If successful this would result in smaller spending, but there is clearly a high risk that talks fail and much of the budget proposals would need to go through the budget reconciliation process.

Partisanship means we take the reconciliation route

If this route is chosen, budget proposals can be passed with just 51 votes in the Senate rather than the usual 60, yet even here the Democrats' wafer-thin majority means that just one dissenting voice in the party can block it.

There are several candidates who could throw the proverbial spanner in the works. The most obvious is West Virginia Democrat Senator Joe Manchin, who managed to retain his seat in what is viewed as a "Republican" state - 69% of the electorate backed Donald Trump for president last year. He has already refused to back calls to remove the filibuster that would make it easier to

pass legislation and could also oppose some of the spending proposals in the budget. Also, some on the left are hostile to the extra spending on the US military and police and could choose to oppose key aspects of the plan as well.

This process is a long-winded affair

This process is also longer-winded with bills proposed, revisions adopted, debates held and amendments proposed before a final vote is held. And there isn't much time for this. Congress has to get this done and dusted by the end of September otherwise we could have a politically painful government shutdown that wouldn't look good coming little more than 12 months before the mid-term elections. (Lawmakers have until midnight on the final day of the fiscal year – 30 September – to sign off on the annual budget, or the government will shut down.)

Consequently, the time and political pressures are likely to end in smaller spending plans, but also less ambitious tax plans too. The result will still be higher deficits and debt than estimated by the Congressional Budget Office in February, but unlikely to the same extent as envisioned in the White House's proposals.

Less bang for a buck

One other interesting part of the proposals has slipped a little under the radar. The White House's own economic projections don't anticipate much bang for each buck spent. They project that the US economy will grow by less the 2% per year for the next decade with inflation staying subdued, and barely any action from the Federal Reserve. This appears to be a pretty poor return for all the trillions of dollars scheduled to be spent. So much for Biden's revolutionary Big Bang...

White house Economic forecasts applied for the budget proposals

Table S-9. Economic Assumptions¹
(Calendar years)

	Actual	Projections											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Gross Domestic Product (GDP):													
Nominal level, billions of dollars	21,433	20,933	22,411	23,799	24,808	25,778	26,767	27,794	28,860	29,986	31,166	32,414	33,723
Percent change, nominal GDP, year/year	4.0	-2.3	7.1	6.2	4.2	3.9	3.8	3.8	3.8	3.9	3.9	4.0	4.0
Real GDP, percent change, year/year	2.2	-1.8	3.2	3.3	2.2	1.9	1.8	1.8	1.8	1.8	1.9	1.9	2.0
Real GDP, percent change, Q4/Q4	2.3	-2.5	5.2	3.2	2.0	1.8	1.8	1.8	1.8	1.9	1.9	2.0	2.0
GDP chained price index, percent change, year/year	1.8	1.2	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer Price Index, percent change, year/year	1.8	1.2	2.1	2.1	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Interest rates, percent:²													
91-day Treasury bills	2.1	0.4	0.1	0.2	0.4	0.8	1.2	1.5	1.6	1.7	1.8	2.1	2.2
10-year Treasury notes	2.1	0.9	1.2	1.4	1.7	2.1	2.4	2.6	2.7	2.8	2.8	2.8	2.8
Unemployment rate, civilian, percent³													
.....	3.7	8.1	5.5	4.1	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8

¹Note: A more detailed table of economic assumptions appears in Chapter 2, "Economic Assumptions and Overview," in the *Analytical Perspectives* volume of the Budget.
²Based on information available as of mid-February 2021.
³Seasonally adjusted CPI for all urban consumers.
⁴Annual average.
⁵Average rate, secondary market (bank discount basis).

Source: White House

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