

US: Biden goes big

Joe Biden is proposing a \$1.9tn fiscal support package, called the “American Rescue Plan”, focusing on stimulus cheques, income support, money to battle the pandemic, and funding for state and local government. This will be a huge test of his promise to bring unity to Capitol Hill.



The Fiscal floodgates open... again....

Amid further evidence that the economy is stuttering in response to the intensifying health crises, Joe Biden has unveiled a proposed package of measures amounting to \$1.9tn. This follows on from the \$900bn agreed in December and the \$3tn CARES Act. Once again there are no tax increases to fund any portion of it, meaning it will result in another step up in government borrowing.

\$1tn of the money is focused on income support. This will see an additional cheque of \$1400 for those earning less than \$75,000 per year, after the \$600 cheques recently distributed. There will also be a \$400 per-week extension of emergency unemployment benefits through until September.

There is \$350bn to be injected into state and local governments, which should help to stem the tide of job losses in this sector that have resulting from strained finances. Another \$400bn is to directly tackle the crisis, including money to boost the vaccination program and money for testing,

and there is a further \$130bn to help with school re-openings. Additional money to support the small business sector and money too for those struggling with rental and other payments, as well as child-care, is also included. So too is a plan to increase the national minimum wage to \$15/hour.

"Bi-partisan" Biden will be tested

The aim is to get this passed before the end of March when several of the special unemployment benefits are ending. However, it may not be straightforward. Joe Biden campaigned as a bipartisan dealmaker and he is going to need all those skills to reach out to enough Republican moderates to get it passed in its current form.

First off there is the prospect of President Trump's second impeachment trial in the Senate, which risks distracting/delaying action on the package and at the very least heightening tensions on Capitol Hill.

Secondly, the Democrat majorities in both the House and the Senate are very thin – eleven seats in the former with the 50-50 split in the Senate only broken by Kamala Harris' casting vote if there is a tie. The package should get through the House relatively smoothly, but there will be more issues in the Senate.

Given the hostility in the Republican party for money for state and local government, which won't be calmed in any way by the additional acrimony generated by impeachment proceedings, this part could struggle. Many Republicans have also shifted to a more fiscally conservative stance since the election, with some likely to question the size of the unemployment benefit payments and additional cheques.

Key planks of the program will therefore come up against the Senate filibuster. This requires 60 members to approve ending a debate and moving to a vote on a piece of legislation and if there aren't ten Republicans prepared to back the package it may have to be broken into component parts.

There is a route around the filibuster. Some of the package would pass on a majority vote in the Senate if it is put through the more tortuous budget reconciliation process. However, this procedure is not available for everything, including the money for local and state governments. Consequently, it may need to be amended or diluted to get enough Republican support.

Going for growth, but the tax hikes are coming

Assuming much of the package gets through it will clearly support incomes and confidence levels in the near-term. But the key to getting the economy growing strongly again is ending the pandemic. Recent data has underlined the strains in the jobs market from ongoing restrictions and that is why the money for testing and vaccinations is so critical.

Much of the additional payment to individuals is likely to be saved initially, but when the re-opening comes it could be used to fuel a consumer boom. As such, it reinforces our view that the US economy will grow by more than 5% this year.

It is also important to point out that this is only the first package from Joe Biden. He is already working on a second, focused on infrastructure and green energy. This could help maintain economic momentum in the coming years, but there will eventually be a day of reckoning. Biden suggested that closing tax loopholes can do a lot of the work to repair government finances, but

higher corporate, income and capital gains taxes are inevitable at some point for an economy that has a national debt well in excess of 100% of GDP.

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