ECONOMIC POLICY IN PRESIDENT BIDEN'S FIRST 100 DAYS

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The S&P 500 index closed at 3,310 on November 2, 2020, the day prior to the election. As of April 22, 2021, the index has increased by 25% to reach 4,135. This rise is insufficient for evaluating the economic agenda of the Biden administration because its causes include many factors outside the current administration's control, including the successful development of multiple vaccines against COVID-19. Stock market measures are also incomplete because they ignore important societal desires that are not well captured by corporate profits, such as improvements in population health. That said, the stock market rise suggests investors believe that Biden's economic agenda will increase corporate profits, or at least will not significantly dent those profits.

In this article, we discuss six components of President Biden's economic agenda: his response to the COVID-19 pandemic, domestic spending priorities, climate policy, tax policy, long-term fiscal policy, and immigration policy. We caution that our assessments are speculative and may depend on important details that will remain unknown for a while. For example, the economic benefits of President Biden's proposed "infrastructure bill" depend greatly on how wisely the money is spent. History is replete with examples of government waste such as excessive spending on weapons systems, but also of splendid government successes such as Operation Warp Speed's astute investments in vaccine production. A full accounting of the consequences of the administration's economic decisions will be unavailable for some time.

I. COVID-19 PANDEMIC

One of the Biden administration's first major acts was to propose a $1.9 trillion COVID-19 stimulus package that expanded unemployment benefits and provided direct payments to individuals of up to $1,400. The stimulus bill reduces the risk of a prolonged economic downturn in the years following the

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COVID-19 recession. However, Congress had already previously enacted $4.5 trillion of stimulus spending within the last 12 months, and prominent economists such as former treasury secretary Larry Summers have argued that an additional $1.9 trillion exceeds the amount of stimulus needed to close the remaining gaps in output and income. The Biden administration has also continued the vaccine deployment efforts of the prior Trump administration, announcing that all adults are now eligible to receive the COVID-19 vaccine. If U.S. vaccinations continue apace, then economic growth and unemployment rates are likely to approach their pre-pandemic levels by the end of the summer. While economic recovery is undoubtedly good news, the sudden revitalization of business combined with an unprecedented amount of government stimulus raises the risk of future inflation.

II. DOMESTIC SPENDING PRIORITIES

President Biden's early domestic spending priorities are embedded in two major policy proposals: The American Jobs Plan, also known as his "infrastructure bill," and his FY 2022 discretionary spending request, which provides a preview of the full budget proposal he will present later this year.

The American Jobs Plan was touted as an infrastructure bill, but it contains much more than a typical "roads and bridges" proposal, as signaled by the fact that the bill's name includes the word "jobs" but not "infrastructure." As is typical, the American Jobs Plan proposed to improve highways, bridges, ports, and airports; improve drinking water, the electric grid, and high-speed broadband access; and modernize homes, schools, and government facilities. Less traditionally, the plan also proposes to improve the wages and welfare of home healthcare workers, revitalize manufacturing, create more union jobs, and spur innovation by funding general R&D. Particular attention is paid to realigning the economy to put more emphasis on topics of equity and mitigating the harmful effects of climate change. The plan is estimated to cost in excess of around $2 trillion over ten years, largely paid for by increases in corporate taxes, as discussed below.

While some have praised the plan, comparing its size and scope to the New Deal, Republicans and moderate Democrats have criticized its cost and the intermingling of traditional infrastructure investments with broader domestic policies. However, in recent days signs have emerged that a compromise might be possible, with GOP lawmakers signaling they could support a smaller bill and Biden stating that he is open to compromise.

The other major statement of President Biden's domestic spending priorities is his administration's discretionary spending request for the upcoming fiscal year (FY 2022), which was sent to Congress on April 9, 2021. Given the narrow divide in Congress, the extent to which it will translate into actual spending is unclear, and Biden's background as a legislator suggests this request might be merely an opening bid to begin negotiations. Nevertheless, it does outline Biden's ambitious domestic spending agenda. In light of the upcoming expiration of the spending caps put in place by the Budget Control Act of 2011, Biden has an opportunity to remake the domestic spending landscape, provided he can find a political path forward.

Biden's proposal identifies five broad themes: Investing in Public Health, Creating an Economy that Works for All, Tackling the Climate Crisis, Advancing Equity, Restoring America's Global Standing, and Confronting 21st Century Security Challenges. These priorities, which generally reverse the trends from the Trump administration, translate into significant spending increases across an array of Cabinet departments, including Education (+41%), Health and Human Services (+23%), and EPA (+21%), while holding discretionary military spending flat in real terms (+2%). Overall, Biden's $1.5 trillion spending plan would increase discretionary spending by $118 billion, which is around 8.4% above FY 2021, and about 25% above total discretionary spending in FY 2017, which encompassed the transition between the Obama and Trump administrations. Importantly, these increases exclude mandatory spending programs such as Medicare, Medicaid, and Social Security, which make up two-thirds of overall government spending and are widely believed to be the subject of future proposals.

Biden's discretionary spending proposal does not specify any offsetting revenue sources, leaving his plan to be financed by debt. In light of bipartisan concerns over flat military spending and renewed attention being paid to the national debt by legislators on both sides of the aisle, including a statement from Senator Joe Manchin (D, West Virginia) vowing to reject the proposal due to its effect on the debt, the impact of the plan on the debt is likely to be a significant threat to its passage.

III. CLIMATE POLICY

Curbing climate change has been at the forefront of the Biden agenda since his first week in office, when he issued a series of executive orders that were aimed at undoing many of the policies put in place during the Trump administration. Perhaps the highest-profile action was the rejoining of the Paris Agreement, but Biden's early policies also created the White House Office of Domestic Climate Policy, to be headed by former Obama EPA Administrator Gina McCarthy. The creation of the office and installation of McCarthy signaled a return to the pre-Trump view of climate change and the central role that climate policy will play in Biden's Agenda. Indeed, the goal of addressing climate change has featured prominently in Biden's other signature policy initiatives, the "American Jobs Plan," described above, and the "Made in America Tax Plan," which proposes replacing subsidies to the fossil fuel industry with tax incentives for renewable energy. However, while Biden's infrastructure and tax plans are embedded in legislation and will be difficult to pass, much of his climate agenda is implemented at the agency level, and, as such, is likely to have a significant impact even if Biden is unable to enact his legislative agenda.

As this article was going to press, President Biden announced a new commitment for U.S. climate policy at the 2021 virtual Earth Day summit: halving greenhouse gas emissions by the end of the decade. At the same event, China and India reaffirmed their previous commitments. These statements from the world's three largest emitters of greenhouse gasses signaled the possible reemergence of global cooperation to mitigate climate change. However, achieving these ambitious goals will not come without a cost, with both the U.S. and China needing to dramatically curtail fossil fuel use in order to meet their targets. On the same day, reinsurance giant Swiss Re released a report highlighting the stakes, predicting that world GDP could shrink by as much as 18% by mid-century if no action is taken to reduce climate change. According to the company, even achieving the moderately ambitious targets of the Paris Climate Agreement could reduce global GDP by 4% by 2050.

Business reactions to Biden's climate agenda have been mixed. President Obama's general tightening of environmental regulations was followed by the Trump administration's loosening of those regulations, and now the Biden administration is likely to return to stricter regulations. While many firms recognize the importance of improving environmental performance and the looming threat of climate change, they place great value on stability, and the last decade's regulatory environment has been anything but stable. Similarly, while businesses recognize the need to fight climate change, some object to what they view as a one-size-fits-all approach to implementation. Getting businesses on board with his plan will be critical to its success, as Swiss Re and others have pointed out that public-private partnerships will be key to successfully mitigating the worst impacts of climate change. While it is still unclear whether such cooperation will materialize, the recent stock market boom suggests that businesses and investors seem to be willing to give Biden's plan the benefit of the doubt, at least for now.

IV. TAX POLICY

As a means of paying for the $2 trillion American Jobs Plan, President Biden announced the Made in America Tax Plan, which, if passed in its entirety, would pay for the infrastructure plan over a period of fifteen years while reversing many of the provisions put in place by the Trump administration. The plan includes a number of corporate tax reforms, chief among which is increasing the corporate tax rate to 28%, splitting the difference between the 21% rate enacted by President Trump and the 35% rate in effect during the Obama administration. The likelihood of this rate being enacted is, however, in doubt, with Democratic swing Senator Joe Manchin (D, WV) suggesting he would support an increase in the corporate rate to 25%, but not 28%. However, in recent days the possibility of compromise has emerged, with more Democratic legislators signaling support for a 25% corporate rate and several GOP senators indicating that they would consider an increase coupled with other reforms. If Biden were to succeed in raising the corporate tax rate to 28%, the United States would move into the top end of the OECD corporate tax rate distribution, possibly leading firms to increase efforts to avoid paying US taxes and giving foreign firms a competitive advantage over US-based rivals, both of which would reduce the expected revenue increase from increasing the rates. To counter these effects, Biden's plan also calls for a global minimum corporate tax rate and increased enforcement actions aimed at reducing tax avoidance. Although Treasury Secretary Janet Yellen has been actively promoting the global minimum corporate tax plan, its prospects are uncertain at best, with strong opposition from Republicans on the House Ways and Means committee. Reactions to Biden's plan have been mixed, with France and Germany signaling support while low-tax countries such as Ireland expressed reservations.

At this point, we know little about President Biden's plans for individual tax policy beyond what he discussed during the campaign. During the campaign, Biden suggested that he would not raise personal income taxes on individuals earning less than $400,000 per year and suggested that individuals earning more than this amount would likely face a tax increase, although the White House Press Secretary has since clarified that the threshold applies to households, not individuals. Based on what we know, it seems unlikely that Biden will push to reinstate the full deductibility of state and local taxes, which was capped during the Trump administration, but this issue is important to legislators from key Democratic states, and we expect it to continue to be debated throughout Biden's term.

V. LONG-TERM FISCAL POLICY

According to the Congressional Budget Office, the budget deficit in 2020 and the projected deficit in 2021 are the nation's two largest deficits since the end of World War II. The recent surge in deficit spending is a result of three Congressional bills passed in response to the COVID-19 pandemic. The $2.2 trillion 2020 CARES Act, the $2.3 trillion 2020 Consolidated Appropriations Act, and the $1.9 trillion 2021 American Rescue Plan Act are each among the largest spending measures ever enacted by Congress. These bills did not include any revenue measures, unlike President Biden's proposed $2 trillion infrastructure bill.

Although pandemic-related spending is expected to decrease in the near-term, federal spending on Social Security, Medicare, and other major health care programs will continue to rise inexorably because of population aging and rising health care costs. On our current path, assuming tax and expenditure laws do not change, the debt-to-GDP ratio will rise from 102% in 2021 to 150% over the next two decades. For perspective, the highest debt-to-GDP ratio in US history was 106% following the end of World War II. During his campaign, President Biden proposed a combination of payroll tax hikes and benefits increases that the Urban Institute estimates would close about one-quarter of the funding gap for Social Security. While he has called for expanding Medicare benefits by lowering the age of eligibility, President Biden has not articulated a plan to shore up Medicare's finances, even though CMS expects the Hospital Insurance trust fund to be depleted by 2026. Although the government's funding needs can be met by increased borrowing in the short run, this debt will put pressure on rising interest rates, increase the risk of a financial crisis, and/or lead to higher tax rates in the long run.

VI. IMMIGRATION

On his first day in office, President Biden issued an executive order to halt construction on President Trump's border wall, a controversial symbol of the previous administration's hostility towards immigration. While much attention has been paid to the subsequent surge in illegal border crossings, businesses care more about increasing the number of high-skilled immigrants such as software coders and engineers. President Biden declined to renew President Trump's June 2020 ban on temporary work visas, which had included a ban on highly valued H-1B visas used by foreign workers in the tech and medical sectors. President Biden also revoked President Trump's ban on the issuance of new green cards and has proposed an immigration bill that could increase the annual number of green cards by 35% according to Boundless, an immigration firm. These actions will please most business leaders.

VII. CONCLUSION

One hundred days is not much time to evaluate the economic policy of a president since the impact of government policies can take months or years to materialize. Nevertheless, this brief review of the Biden Administration's proposals has highlighted a number of themes. First, Biden's plans, whether dealing with COVID-19 relief, infrastructure, domestic spending, or climate change, are bold. Second, the extent to which Biden's proposals are able to shape the U.S. economy will be determined at least as much by politics as it is by economics, given the Democrats' narrow and tenuous Congressional majority. Third, factors such as climate change will affect the economy whether or not the government acts. Economic policy will shape the nature of these impacts, but the impacts themselves cannot be avoided. Finally, although some aspects of Biden's proposals will generate concerns among businesses and investors, market performance and public statements suggest that many welcome the return to normalcy that the Biden administration has brought.