

# American Rescue Plan: A first package of President Biden's transformative reforms

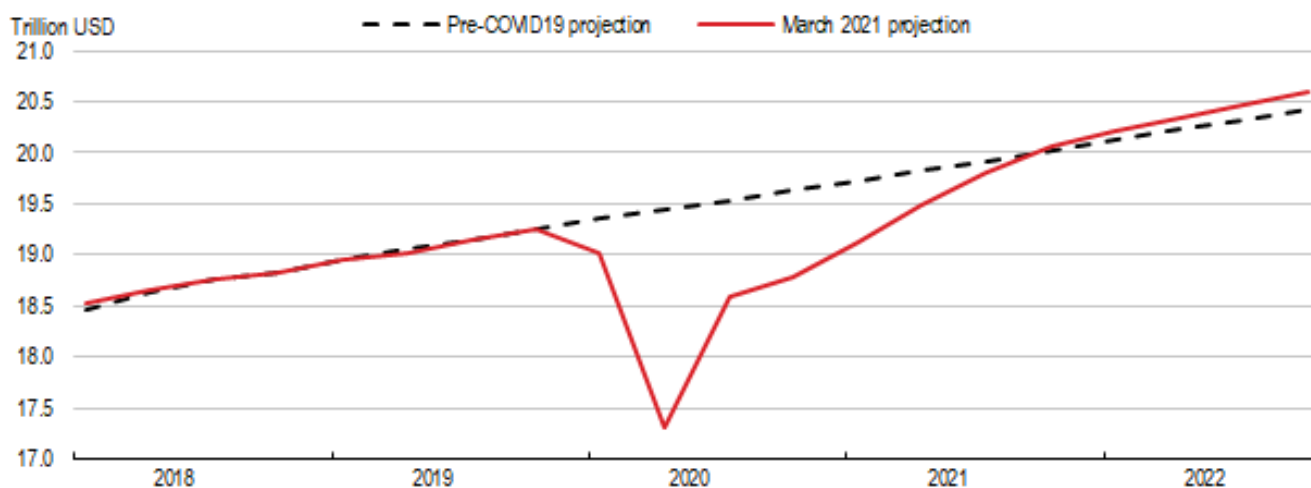
By Patrick Lenain, Carl Romer and Ben Westmore



The American Rescue Plan (ARP) submitted by President Biden and approved by U.S. Congress in mid-March provides US\$1.84 trillion (8.4% of GDP) of fiscal support to the economy – a very large stimulus by international standards. Soon after the plan's approval, the OECD Interim Economic Outlook presented a significant upward revision to the U.S. economic growth forecast, doubling it for 2021 from 3.2% to 6.5%. The fiscal package will boost domestic demand and help activity return more quickly to pre-pandemic levels (Figure 1), with many unemployed workers getting back jobs. Furthermore, OECD modelling highlights that the package may have noteworthy demand spillovers for the major trading partners of the U.S. (for further details, see The American Rescue Plan is set to boost global growth).

## **Figure 1: U.S. GDP projections**

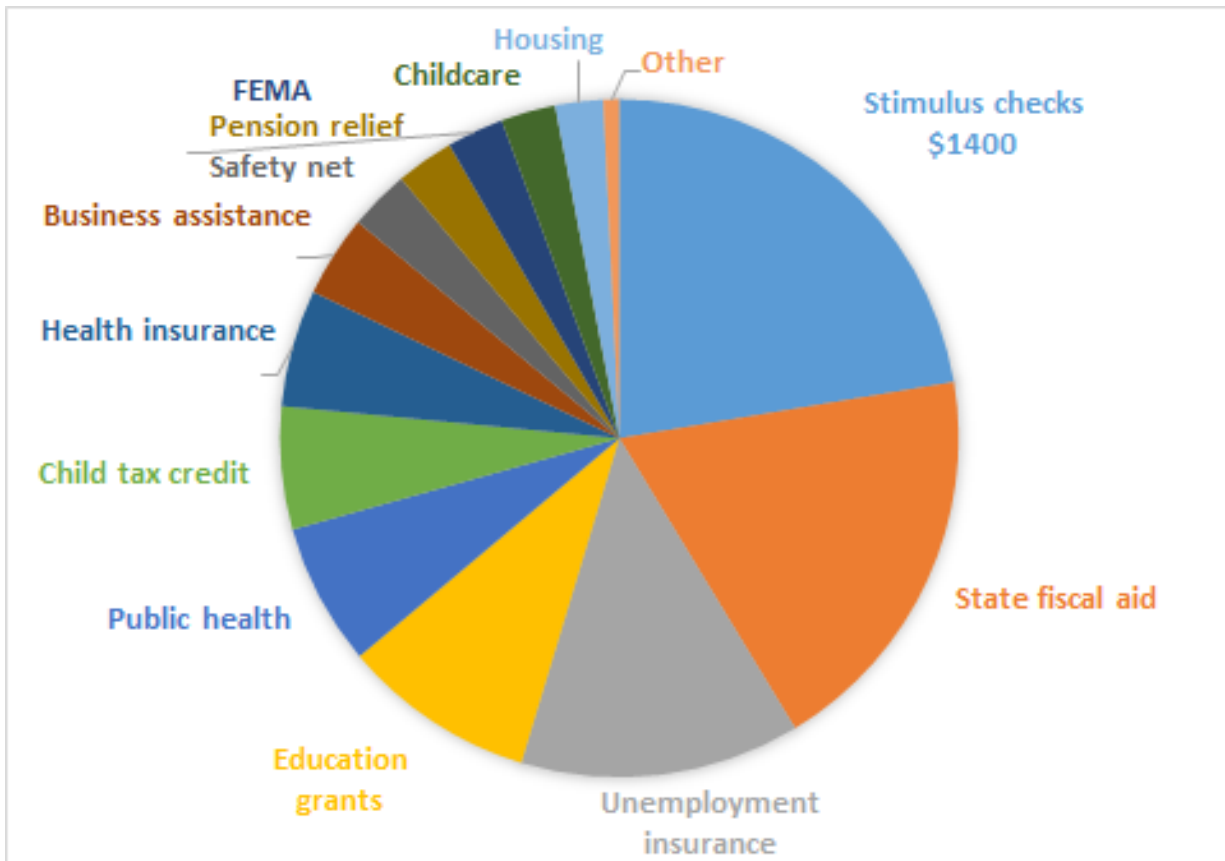
*(trillion of US dollars, constant prices)*



Source: OECD Economic Outlook projections.

While concerns have been raised that such a large fiscal stimulus could cause a significant future inflation shock, the transformative content of the measures in the package should not be overlooked. As recommended by successive OECD Economic Surveys of the United States, the ARP seeks to address persistent structural challenges that have prevented many Americans from realising their human potential. The Plan will help struggling subnational governments, support unemployed workers, facilitate the reopening of schools, close gaps in unemployment insurance, and reduce child poverty. Besides sending checks of \$1400 to eligible families (budget cost of US\$412 billion), the Plan contains other important provisions (Figure 2).

**Figure 2 – American Rescue Plan’s main provisions\***



Source: Authors' compilation from various sources.\*

Estimates based on available information and subject to changes.

- **Support to subnational governments (US\$350 billion).** The ARP allocates financial support to States, territories and tribes. States that depend on tourism and sales taxes like Hawaii, Nevada, Florida, Texas have faced steeper budget shortfalls, whereas other states like Idaho and Utah saw large revenue increases owing to strong federal expenditures and relatively short COVID-19 lockdowns. As argued in past OECD work, subnational governments play key social and economic roles, but existing fiscal rules can impose damaging spending cuts during recessions.
- **Unemployment relief (US\$246 billion).** The Plan provides Federal funding to supplement state-level unemployment insurance benefits with an additional \$300 per week – less than the supplement of \$600 per week in the CARES Act but nonetheless important, as these benefits would

otherwise have fallen back to low pre-crisis levels. By supporting unemployment insurance, the ARP will help to keep unemployed workers active in the labour market, rather than becoming discouraged from job search, as seen in past recessions.

- **Support to schools and higher education (US\$170 billion).** Many schools had to close during shutdown orders, with detrimental impacts on vulnerable families and the risk of large numbers of dropouts. K-12 Schools will be given US\$125 billion in direct aid with another US\$40 billion for colleges and universities to reopen in safe conditions. Reducing gaps in educational outcomes, as measured by PISA, has been a recurring OECD policy recommendation.
- **Child benefits and affordable childcare (US\$156 billion).** A persistent challenge for families has been the absence of affordable childcare, which has depressed the labor-market participation of American women. Also, the lack of affordable early-childhood education, which is decisive in children's school performance, has created large inequalities. The ARP provides emergency funding for child-care assistance to essential workers unable to telework, typically people in low-income deciles. The Plan also helps 16 million poor and rural K-12 students without access to high-speed internet. The Child Tax Credit and Earned Income Tax Credit will receive a much-needed boost: the Urban Institute projects that this will cut child poverty in half.
- **Health insurance coverage, vaccines and COVID-19 containment (US\$125 billion).** Past OECD work has recommended closing existing gaps in healthcare insurance, working towards universal coverage through a system of multiple insurance providers. For employees laid off or who otherwise lost their health insurance, ARP provides US\$57 billion in funding for employers to retain COBRA coverage for departing employees and a temporary expansion in subsidies that could be used to

pay for health coverage through the Affordable Care Act public exchange system. In addition, ARP increases marketplace premium subsidies for people at every income level and will now be offered to those with income above 4 times the federal poverty level.

While these measures are temporary, the OECD has recommended permanent reforms to alleviate child poverty, improve K-12 education, close gaps in health insurance, and strengthen local communities – all with a beneficial impact on long-term economic growth and well-being. Other reforms recommended by the OECD include wider access to high-speed internet; investment in green technologies; and strengthening anti-trust actions to protect consumers against oligopolies' market dominance.

President Biden has now turned his attention to implementing new policies to boost investment, which could have a fiscal cost of at least US\$3 trillion spread across several years. Notwithstanding the risk of political gridlock, this provides the opportunity to further address long standing challenges, including those reform priorities previously identified by the OECD in the areas of infrastructure, green technologies and education.

## **References**

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