President Biden's policy priorities and their impact on the economic outlook

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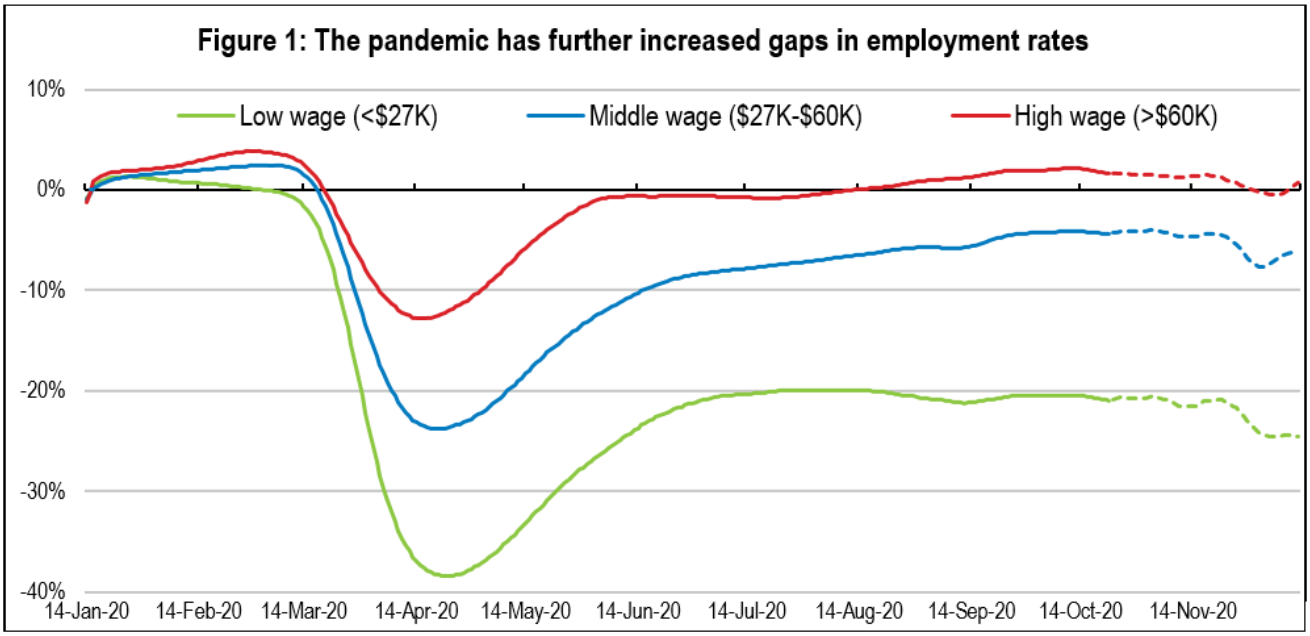
The inauguration of President Biden on January 20 in Washington, D.C, marked the launch of an ambitious policy agenda for the four-year mandate. As he made clear during his inaugural address, President Biden has broad policy priorities in terms of health, jobs, income, climate and equity. If approved by Congress and fully implemented by his administration, these policies will boost the economic recovery in the short term and, in the medium term, will improve the wellbeing of Americans.

US economic situation in early 2021

The US economy has rebounded quickly since the second quarter of 2020, when workers in many states were ordered to stay at home and many businesses were ordered to shut their doors. GDP is now expected by the consensus of economists to have contracted by only 2.5% in 2020 (Q4 over Q4), a much less severe fall than feared initially. After jumping to 13% in May, the unemployment rate quickly dropped below 7% by the end

of the year. Boosted by the large fiscal stimulus and monetary support, consumer demand has revived, putting the economy on a pathway toward recovery.

However, these average numbers do not tell the whole story: the pandemic has not impacted all Americans equally. While high-wage workers experienced the recession during only a few weeks and are now in near-normal employment conditions, others have been hit by job losses and are facing weak demand for their labour (Figure 1). Low-wage workers are still unemployed in sectors operating well below capacity such as hospitality, travel, tourism and entertainment. For them, unemployment benefits are essential to make ends meet.

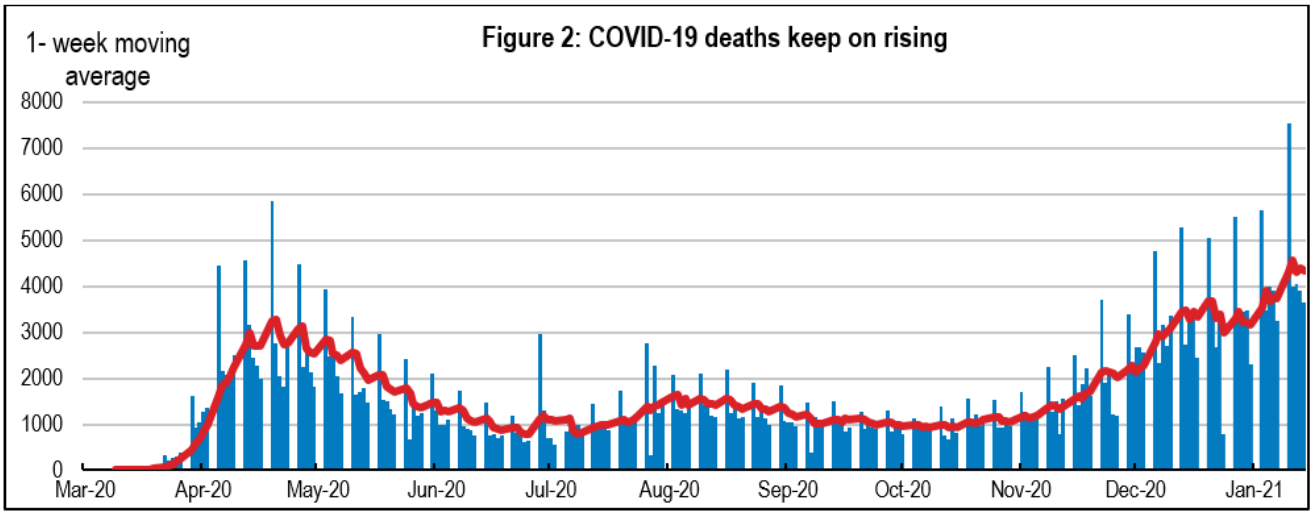


Source: Chetty et al (2020), Opportunity Insights. Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line in the low-wage series is a prediction of employment rates based on Kronos data.

Combatting COVID-19

The COVID-19 pandemic has further increased the existing gaps in income and wealth separating those living in poverty from the well-offs. Job losses have also been disproportionately concentrated in Black and Latino communities, with women particularly hard hit. The pandemic has also highlighted the inadequacies of the health system, where many remain uninsured and even more are under-insured and unable to obtain adequate healthcare when needed.

With COVID-19 contagions and deaths still at record levels (Figure 2), a key priority of the Biden-Harris Administration will be to reduce the spread of the virus and high death tolls. Investment in contact tracing capacity will likely be increased via the US Public Health Jobs Corps, which will hire and deploy 100,000 public health workers. The new administration has also vowed to take a more active role in vaccine distribution, given much of the responsibility to date has been shouldered by state governments, without clear coordination. In the meantime, President Biden has halted the US withdrawal from the World Health Organisation.



Source: Refinitiv.

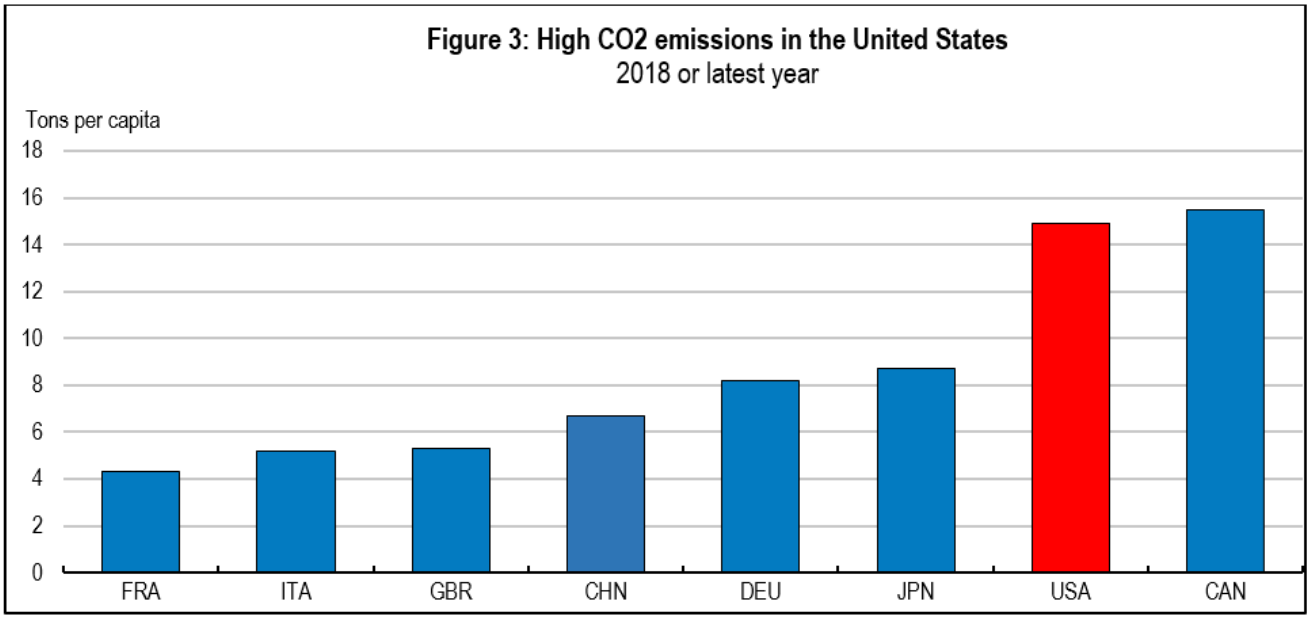
Fiscal stimulus

The new administration is also prioritising additional fiscal measures to support the economic recovery. The fiscal package of US$900 billion agreed at the end of 2020 is helpful, but insufficient, providing only modest support to the economy beyond Q1 2021. A new package worth US$1.9 trillion (9% of GDP) has been outlined, with spending largely distributed this year. The proposed fiscal package would include another direct cash payment to all Americans (US$1,400 per person), in addition to the previous two payments; it would expand emergency paid leave and unemployment programs, while increasing the minimum wage to US$15; it would extend a 15% increase of benefits under the Supplemental Nutrition Assistance Program; it would expand tax credits for children and child care and reducing health insurance premiums; it would offer grants and investment capital to small businesses; finally, as in some other OECD countries, it would provide funding to help victims of domestic violence. Some of these new initiatives, as well as those designed to contain the pandemic, would entail additional federal funding to state and local governments.

Making growth more inclusive and less carbon-intensive

President Biden has said that longer-term reforms will make growth more inclusive and less carbon intensive (Figure 3). This may include automatic unemployment insurance stabilizers and tax increases for high-income earners and corporations. In addition, significant increase in infrastructure spending could be legislated as well as investment to decarbonise the economy and mitigate climate change. Such pledges accord with the recommendations outlined in the 2020 OECD Economic Survey of the United States. President Biden re-joined the Paris Climate Agreement on the first day of his presidency and intends to introduce more stringent fuel efficiency standards

and bolster the climate policies of federal agencies.



Source: OECD.

Working with international partners

President Biden has signalled he would approach international cooperation in a different way, with the objective to “repair alliances and engage with the world once again”. A renewed US commitment to work with international partners to address shared challenges will likely lead to a more ambitious agenda notably on COVID-19, global recovery, climate change, swelling debts in developing countries, trade imbalances, and international corporate taxation.

A bipartisan approach to the reform agenda?

Although President Biden enters office with a united government, his slim majority in both chambers of Congress may make it difficult to enact some aspects of his policy agenda. A simple majority is needed for legislation attached to the budget process (i.e. budget reconciliation legislation) and nominations to executive branch positions and judicial vacancies also only require a simple majority. However,

changes not related to the budget, such as related to climate, immigration, minimum wages and labour regulations could be difficult to legislate if the filibuster remains in place (as it means legislation will need 60 votes to pass the Senate compared with the 51 effective votes Democrats currently hold). Similarly, the introduction of a public health insurance option may face resistance. A bi-partisan approach would be essential for all these policies.

The President has already started to act through Executive Orders. He has announced that he will reinstate environmental regulations. Furthermore, new measures including new appliance and building efficiency standards and changes to make federal government procurement more climate-friendly may be introduced via this pathway. Even so, it is possible that Executive Orders will face challenges in the courts.

What does this mean for the economy?

Overall, the stated policies of the incoming administration would – if implemented – likely boost economic growth in the short-term and make growth more inclusive and less carbon intensive in the medium-term. A well-timed fiscal stimulus would help avoid the recovery losing momentum in early 2021; instead of expanding by about 3½ percent (y-o-y) next year, as projected by the OECD, GDP growth could be notably stronger if much of the proposed stimulus is approved. The immigration and health care policies of the new administration are likely to increase potential labour resources, supporting growth and public finances. While stricter environmental standards may inhibit firm growth, this is typically not the case for more productive firms. Furthermore, such standards have the capacity to drive innovation in environmentally friendly technologies.

Further Reading

OECD information on the United States

OECD Economic Survey of the United States

OECD Economic Outlook, Country Note USA, December 2020

OECD Washington Center

President Biden’s Inaugural Address

President Biden’s American Rescue Plan