



## U.S. Economic Challenges for the Biden Administration

Paweł Markiewicz

The U.S. economy is emerging from the recession caused by the COVID-19 pandemic. To maintain growth and at the same time achieve climate and technology goals, the Biden administration is pushing large socio-economic programmes. To pass them in Congress, the administration will be forced to reach compromises with factions within the Democratic Party. Biden also will need some Republican support. In foreign policy, these programmes aim to strengthen the U.S. position in its rivalry with China, something that also opens greater possibilities for closer cooperation with the EU.

In his campaign programme, “Build Back Better”, Joe Biden focused on rebuilding the American economy, which was suffering from [the pandemic](#): in 2020, U.S. GDP fell by over 3.5%. The administration’s actions, especially increasing the speed of vaccine distribution and easing epidemiological restrictions, contributed to an economic increase of 6.4% during the first quarter of 2021.

**Biden’s Three-Part Economic Plan.** The administration’s first large socio-economic legislative package, the “American Rescue Plan” (ARP), totalling \$1.9 trillion, was passed on 11 March 2021. It was part of [Biden’s pandemic strategy](#) and included a one-time \$1,400 payment to each taxpayer and extending and increasing unemployment benefits.

In April 2021, Biden presented two additional large legislative packages: the “American Families Plan” (AFP) and the “American Jobs Plan” (AJP). The AFP is envisioned as the biggest reform in U.S. social policy since the 1960s. Biden wants to allocate about \$1.8 trillion for, among other programmes, free two-year community college tuition (costing \$100 billion), introducing universal maternity and sick leave (\$225 billion), and universal pre-school (\$200 billion) at the federal level.

The AJP would be the largest investment in infrastructure since the 1930s, totalling \$2.3 trillion. The administration will allocate about \$620 billion on the development and repair of highways, bridges, ports, rail lines, and airports. In 2020, the U.S. ranked 13<sup>th</sup> in the global ranking of national

infrastructure quality, spending only 0.5% of GDP annually on modernisation. Key elements of the AJP include investments associated with combating climate change, for example, \$176 billion on developing electric vehicles and \$100 billion for modifying the nation’s electric grid. The goal is to produce 100% of electric energy without CO<sub>2</sub> emissions by 2035 (currently, it is about 38%). Simultaneously, Biden plans to stimulate the creation of 19 million jobs in 2022-2030, including some 1-1.2 million annually in the clean energy sector. Even though U.S. unemployment fell from 14.7% in April 2020 to 6.1% in April 2021, Biden aims to lower the rate to pre-pandemic levels (3.5% in 2019). About \$80 billion will be apportioned for producing medical supplies and for semiconductors, vital for key technology areas, such as the automotive sector for manufacturing electric vehicles and developing artificial intelligence (AI).

**Financing and Enacting the Programmes.** To pass the AFP and AJP legislation, worth a combined \$4 trillion, Biden has proposed raising taxes and repealing the large tax relief introduced by the Trump administration in 2017. Biden’s plan includes increasing taxes on corporations from 21% to 28% and on incomes over \$1 million annually (from 37% to 39.6%, affecting about 1% of Americans). As much as 65-70% of Americans support increasing taxes on wealthy citizens and corporations to finance the economic plans. The administration hopes that raising taxes will cover part of the costs (about \$1.3 trillion) associated with fulfilling

# PISM BULLETIN

the programmes over a 15-year period and limit inflation to below 2% (4.2% in April 2021).

Even though the [Democrats control the House and nominally the Senate](#), it is not enough to pass budget legislation in the Senate where a minimum of 60 votes is required. This is Biden's main challenge in the context of passing his plans. To overcome resistance in the Senate, the Democrats may again decide to use the "reconciliation" mechanism, which makes passing budget legislation possible with a simple majority in strictly defined cases. It was last used to pass the ARP. Obstacles to this are differences of opinion on the president's plans among party factions. Moderate Democrats question the scale of the corporate tax increases. However, [progressive Democrats](#) are critical of what they see as unambitious climate policy and suggest investing up to \$10 trillion in this area. They also demand expanding the scope of the AFP to include issues key to them, such as limits on gun ownership, reforming the immigration system, and free, universal healthcare and college/university studies.

At the same time, Biden is counting on some support from the Republicans to pass his programmes. Attempts to gain Republican support are backed by moderate Democrats (e.g., Sen. Joe Manchin), but progressives are opposed to the compromises this would entail and instead favour quickly passing the AJP and AFP as one package. Biden continues to negotiate with Republicans, such as Sen. Lisa Murkowski, who are inclined to support hard infrastructure investments—also proposed in 2016 by President Trump. However, the Republicans are critical of increasing the deficit by the projected \$2 trillion over 10 years under Biden's plans. This could increase the national debt to even 130% of GDP by 2023 (it is already over 100% of GDP), which could cause a potential regress in private investment. The Republicans proposed their own plan totalling around \$1 trillion. Biden signalled that the scale of the AJP could be lowered, for example, to \$1.7 trillion, as part of a negotiated bipartisan compromise and passed by the end of this year.

**Conclusions—the International Context of Biden's Programmes.** Current estimates suggest that the U.S. economy will rise by over 6% in 2021 and by 3.7% in 2022. Passing the AJP and AFP may increase these figures. The economic recovery will likely translate into better chances for the Democrats to increase seats in Congress during the upcoming mid-term elections in 2022, especially because

public opinion on Biden's programmes correlates to party sympathies. The AJP enjoys majority public support (55%), but registered Democratic voters support it much more (94%) than Republican voters (32%). The same is the case with the AFP (95% to 22%). Successfully rebuilding and strengthening the economy might convince independent or moderate Republican voters to back Democratic candidates, both in the mid-terms and in the 2024 presidential election. A bolstered Democratic position in Congress backed by progressive politicians would directly affect the agenda of Biden's domestic and foreign policies during the second half of his term.

Stimulating the jobs market, investing in infrastructure, and technological advancements are also methods to reach carbon neutrality by 2050. This in turn aims to not only confirm the U.S. global position in combating climate change but also to enhance the country's economic standing. Developing competitive green technology will increase the world's demand for American goods and services, especially in the context of the U.S.-China rivalry. This applies to other technologies as well—as part of the AJP, around \$270 billion is intended for research and development on AI and semiconductors, both key to the armaments sector (China's goal is to become the [world leader in AI](#) by 2030). A further goal is to decrease American companies' reliance on production and supply chains in China, particularly medical supplies (in 2019 the U.S. imported 53.7% of its medical equipment from that country).

Public aid from the federal budget (e.g., to finance research and development for companies) and maintaining limits on access to the U.S. market for foreign companies (as part of Biden's "Buy American" programme) will intensify American companies' competition not only with Chinese entities but also those from the EU or the broader Indo-Pacific region. However, Biden needs European involvement in his policy of preventing Chinese economic expansion. During Secretary of State Antony Blinken's visit to Brussels in 2021, an agreement was reached to appoint a joint EU-U.S. group on trade and new technologies. Tech cooperation may become a new, added-value vector of transatlantic relations. Therefore, it is in Poland's interests to expand its bilateral relationship agenda with the U.S. on issues such as renewable energy development and digitisation while extending the Three Seas Initiative in the context of cooperation with the U.S. in those key areas.