

SAFE Finance Blog

Joe Biden's multiple economic challenges

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Ignazio Angeloni: Making America's economy "great again" will require hard work – and a bit of luck



Be careful what you wish for because you might get it; the old motto fits Joe Biden, winner of the US presidential election against Donald Trump. It was the third time "old Joe" had tried. This time, the problems he faces are more daunting than ever.

In one way or another, all issues revolve around the economy. The exponential growth of the pandemic brought in recession, poverty, and public debt, all at an unprecedented scale. Trump's tariffs have worsened the crisis without attaining any of the intended goals – undermining the Chinese, reversing the decline of the American industry, and redressing the country's external deficit. Social inequality and climate risk have risen, requiring Biden to change his predecessor's benign neglect. On top of all, the burgeoning public budget deficit restricts the room for maneuver. If with interest rates at zero, public finance is not a worry as soon as the economy recovers and the Federal Reserve changes its course the budget constraint will bite

again. Only days ago, the announcement of positive trials by vaccine developers BioNTech-Pfizer and Moderna were enough to boost rates on all maturities.

Political hurdles

There are also political obstacles. Until a few days before the elections, the Biden platform seemed quite clear: a very large federal spending package (three to four trillion dollars, more than three times that planned by the European Union) distributed on several areas (health, labor, corporate support, infrastructure investment, green subsidies), financed partly by debt and partly with new taxes on the rich and the partial reversal of corporate tax exemptions enacted by the previous administration. Plans will need to change after the vote. The pre-election incentive to spend has vanished. The Republican Party, frustrated by the presidential defeat and encouraged by the prospect of maintaining its majority in the Senate, is unwilling to collaborate (fiscal measures must be approved by both branches of Congress). Prior to the vote, Treasury chief Steven Mnuchin and Democratic House spokesperson Nancy Pelosi had almost agreed to a set of measures of just under two trillion. Today, the package seems likely to fall below that limit, perhaps much below. A blow to Biden's wish to signal his leadership in economic management already in his first 100 days.

In the area of international trade, the obstacles do not appear less formidable. US trade policy is in disarray, following the Trump administration's refusal to engage in multilateral negotiations and the intention to withdraw from the World Trade Organization. The problem for Biden is that that position cuts across the political spectrum, being shared also by the left wing of his party. Biden's instinct, multilateralist and negotiating, is to restore the leadership that traditionally belongs to his country. He does not need congressional approval for this, but he will still need to mediate with both sides of the political spectrum. Europe may hope for the removal of the duties on wines and cheeses. But in more strategic areas - steel, aluminum, consumer goods from emerging countries - a turnaround of the US towards free trade is unlikely. Trade frictions will continue, as will their inevitable repercussions on the whole framework of international relations.

Disappointments likely

The new administration will play a decisive game on climate and inequality, traditional political flags of his party. Democrats here are united in substance but not in the degree of ambition, with a left (represented by former presidential candidates Bernie Sanders and Elizabeth Warren and the young and very deputy Alexandria Ocasio-Cortez) advocating drastic tax reform in favor of the poor and stringent targets towards a no-carbon economy. Biden's moderate and gradualist approach here follows that of the Obama administration. In both areas, decisions require collaboration with the two parliamentary chambers, one of which should instead remain under Republican control, barring surprises in the second round in January 2021.

All in all, there is a high chance that the outset of the Biden administration may disappoint. The President-elect will need to work hard counting on the proven negotiating experience that has earned him personal trust and contacts in all circles in Washington. Another card likely to help his game is the resilience of the American economy, which in spite of the worsening of the health situation has recently shown signs of vitality. A little luck - for example, the rapid spread of a vaccine - would not hurt. As one of his predecessors, Thomas Jefferson, is reported to have said: "I am a great believer in luck, and I find the harder I work, the more I have of it."

A version of this article was originally published in Italian from Corriere della Sera (<https://ignazioangeloni.home.blog/2020/11/16/spesa-dazi-clima-tutte-le-spine-di-joe-biden/>) on 16 November 2020.

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