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Research Briefing | US

Bidenomics represents an upside policy risks for 2021

+ Bidenomics' positive impacts for industries and regions

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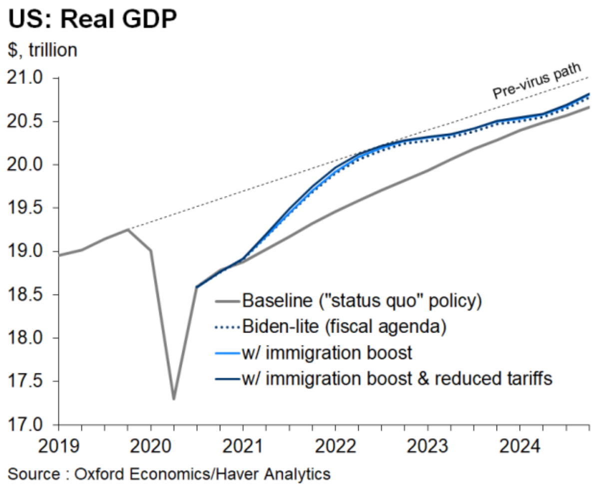
- **Despite slowing US economic momentum, a worsening health situation, and rising election uncertainty, the policy outlook carries upside risks for the economy. Assuming Democrats sweep, we find Bidenomics could lift real GDP growth by 1.2ppts to 4.9% in 2021, vs. 3.7% in a status quo policy baseline.**
- **In this scenario, the economy would recoup its Covid-19 output loss by mid-2021, two quarters earlier than in our baseline. By the end of Joe Biden's first term, we estimate 1.5 million additional jobs with disposable income per household $3,500 higher.**
- **While Biden's fiscal agenda would likely feature tax increases in 2022, we believe the fiscal multipliers would be very low, around 20 cents-25 cents on the dollar. First, the individual income tax proposal is very progressive, with only the top 1% of income earners experiencing a tax hike. Second, our analysis of the 2018 Tax Cut and Jobs Act (TCJA) points to a negligible effect on business activity from a small increase in the statutory corporate tax rate.**
- **While Biden isn't a pure "free-trader," we expect that he would adopt a multilateral approach to trade, looking to repair relations with traditional allies by removing tariffs and partially rolling back some duties on imports from China, particularly on consumer goods.**
- **Biden would likely strive to lift immigration from 600,000 to 1 million, restoring it to the level it was prior to Donald Trump's term in office – thereby boosting population, labor supply, and economic growth.**
- **While considerable uncertainty hangs over health care policy, and the future of the Affordable Care Act, Biden would increase health care spending and boost government transfers, especially to low-income households.**
- *The model files to run the Biden-lite scenarios are available to clients upon request.*

Figure 1: A welcome boost to growth from Bidenomics



Bidenomics could put the economy on track to a faster recovery from the Covid-19 recession.

Relative to a status quo policy baseline, our latest examination of Biden's proposals points to a potential 1.2ppts boost to real GDP growth in 2021, lifting it to 4.9%.

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A Biden presidency would feature increased government spending from 2021 onward and modest tax increases in 2022

With less than a week until election day, Joe Biden carries a modest lead in the polls, and Democrats appears favored to regain a small majority in the Senate. As previously discussed, our Biden-lite scenario assumes the polls are accurate.

In this scenario, Democrats wouldn't hold a filibuster-proof 60-vote majority in the Senate, and thus would require the support of some Republicans to advance their agenda. Democrats could also use the budget reconciliation process to pass legislation that changes taxes and certain entitlement programs. However, this would legally prevent them from implementing changes to the payroll taxes and would likely force a dialing back of proposed corporate tax increases and spending measures.

We include most individual income tax proposals except for the estate tax increase, and we assume the corporate statutory tax rate is raised from 21% to 24%, instead of 28% under the Biden campaign's original proposal. As we did for our Trumpenomics and earlier Bidenomics notes, we assume that the TCJA tax provisions don't sunset.

The latest Tax Policy Center (TPC) estimate of Biden's tax proposal features several changes from the plan we examined last month. First, TPC now includes a one-year delay in all previously proposed 2021 tax increases, reflecting the low odds that large tax hikes will be enacted while the economy is recovering from the Covid-19 recession. Second, it reflects the more progressive nature of Biden's new tax proposals. The TPC estimates 137% of the increases would be paid by top income quintile households – other income tranches would benefit from tax cuts – and 71% would be paid by the top 0.1% earning over $3.5mn per year (see **Box 1** for a discussion of the impact of Biden's tax proposals).

Table 1: Joe Biden's budget proposal would likely be negotiated down to a net cost of $1.8tn

Bidenomics

Revenues (in billions, 2021-2030)	As proposed	Biden-lite
Payroll taxes	$740	$0
Individual taxes (*with no TCJA sunsets)	$0	$470*
Estate tax	$220	
Corporate taxes	$1,450	$725
Total	$2,410	$1,195
Spending (in billions, 2021-2030)	**As proposed**	**Biden-lite**
Infrastructure, clean energy	$2,000	$1,000
Education; Child and dependent care	$1,925	$960
Health care	$1,650	$660
Buy American goods; Invest in R&D	$700	$230
Other, including Social Security, housing	$500	$100
Total	$6,775	$2,950
Net	*$4,365*	*$1,755*

Source: Oxford Economics, Tax Policy Center, Committee for Responsible Federal Budget, www.joebiden.com

Biden's fiscal agenda would provide a boost to economic activity

On the spending front, we assume that Biden's $7tn proposals would be cut by 60% to about $3tn. The infrastructure and education proposals would be reduced by half, the health proposals would be lowered by 60%, and the proposals to invest in R&D and buy American goods would be cut by two-thirds. We now assume government outlays for these measures will rise more gradually through 2021 than we previously assumed. Overall, our "Biden-lite" scenario has a static cost of around $1.8tn over 10 years compared to $4.4tn under the as-proposed Biden plan **(Table 1)**.

Running the Biden-lite scenario through our Global Economic Model, we find it would have positive growth implications in 2021 and 2022, with pro-growth spillovers for the rest of the world. While the post-election period may feature increased policy uncertainty and accrued financial market volatility – especially if the election result is delayed and the potential transfer of power isn't smooth – we assume an environment of reduced policy uncertainty relative to a Trump presidency in 2021. This isn't meant to reflect any specific policy proposals, but instead highlights the more predictable course of policy under a Biden administration. As we and the Atlanta Fed have highlighted, this uncertainty related to a trial-and error presidency can have nonnegligible effects on consumer spending and business investment.

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A growth boost from pro-immigration policies

In addition to his fiscal agenda, Biden would aim to reverse most of the immigration policies Trump has put in place through executive actions, including family separations, the ban on travel from several Muslim-majority countries, and the sharp reduction in the annual cap on refugees permitted in the US. Biden also supports comprehensive immigration reform through legislation, which would likely boost net immigration from 600,000 to 1 million as it was prior to Trump's term. We estimate the increased immigration would provide a permanent 0.2% lift in the level of GDP. While Biden has proposed a path to citizenship for the 11 million undocumented immigrants in the US, we don't assume this goes into effect because it would require new legislation.

Increased trade multilateralism and some pull back on China tariffs

Biden is by no means a pure "free-trader," as evidenced by his "Buy American" plan, which allocates $400 billion for federal government purchases of US-made goods. He says he won't negotiate any trade agreements until significant investments in US manufacturing are made. However, he has pledged to repair relationships with traditional allies in order to work jointly in pressuring China to change its policies.

We expect Biden would likely lift tariffs on products such as steel and aluminum imported from allies, but he would initially maintain most tariffs on China, given the pressure from Democrats. However, we believe Biden would lift the 7.5% tariffs on $110bn of Chinese consumer goods imports (List 4a) as a sign of good will and an effort to reduce the burden on US businesses and consumers paying the price of those duties. And while it's difficult to calibrate beyond the uncertainty factor highlighted above, we believe Biden's international policy would signal a less isolationist and more predictable US stance – generally conducive to stronger global business activity.

If Biden's fiscal, trade, and immigration agenda were implemented early in his term, the economy would grow 4.9% in 2021, compared with 3.7% in the "status quo" baseline where Trump wins the White House, Republicans control the Senate, and Democrats keep the House (**Table 2**). The economy would recover its Covid-19 losses by Q2 2021 – two quarters earlier than in the baseline. This contrasts our Trumpenomics (GOP sweep) where real GDP grows 2.3% in 2021 and recovers its Covid-19 losses by Q2 2022.

Table 2: How Bidenomics and Trumpenomics compare

Economy in 2021			
Average annual percent change (unless otherwise noted)	Status quo policy	Bidenomics	Trumpenomics
GDP	**3.7**	**4.9**	**2.3**
Consumer spending	4.6	5.5	3.7
Business investment	3.2	5.2	-1.5
Employment	2.5	2.8	2.2
Unemployment rate	6.7	6.5	7.0
Federal funds rate (Q4)	0.13%	0.13%	0.13%
10Yr Treasury yield (Q4)	1.4%	1.8%	1.3%
Federal budget deficit (% GDP)	-15.0	-14.5	-14.4

Source: Oxford Economics

A lingering effect through Biden's first term

By the end of Biden's first term, nominal disposable income would be 1.4% higher than in our baseline – the equivalent of $3,500 per household. This contrasts with our Trumpenomics scenario, where nominal disposable income would be 0.6% lower than in our status quo policy baseline in 2024 – the equivalent of $850 per household.

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In the Bidenomics scenario, stronger economic activity would gradually lift inflation above the Fed's 2% target by 2022. With inflation sustainably above 2%, inflation expectations rising, and the unemployment rate falling below 4% in 2023, we would anticipate a Fed rate hike in mid-2023 – compared with a liftoff in mid-2024 in our baseline. After accounting for macroeconomic effects, the unified budget deficit would be 0.3ppts of GDP wider than in our baseline at the end of 2024, at 5.3%.

Table 3: Biden's positive economic impact through 2024

Economy in 2024		
Relative to status quo policy in Q4 2024	Biden-lite	Trumpenomics
GDP (level)	**0.8%**	**-0.9%**
Personal disposable income ($ per household)	3,500	-3,500
Employment (jobs, thousands)	1,482	-500
Federal funds rate (Q4)	+ 1 rate hike	- 1 rate hike (ELB)
10Yr Treasury yield (Q4)	0.65%	-0.13%
Federal budget deficit (% GDP, "-": wider)	-0.3%	0.5%

Source: Oxford Economics

Box 1: Examining the impact of Biden's tax proposals

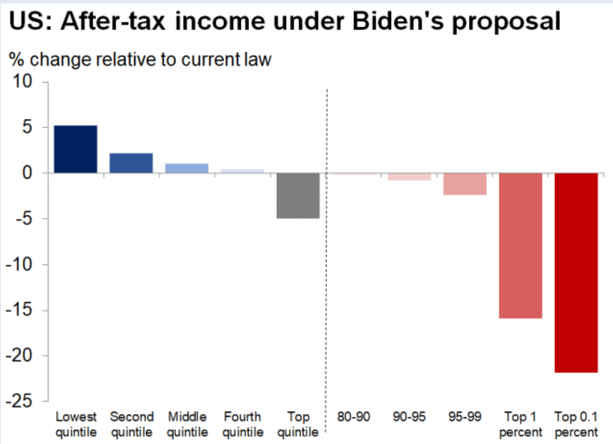
- **Income taxes**

Under Biden's income tax plan, every income tranche except the top quintile would benefit from a tax cut, while the top 1% (those making more than $790,000 annually) would experience a significant tax increase (**Figure 2**). This matters for the economy because the marginal propensity of high-income earners to spend is much lower than that of lower-income families. Given the nature of the tax increases, and our prior work on Tax Cuts and Jobs Act, we estimate a cut to consumer spending of less than 20 cents for each dollar of tax increase.

- **Corporate taxes**

The main pillar of Biden's corporate tax proposal is an increase in the statutory tax rate from 21% to 28% (halfway back to where it stood prior to the TCJA). While this will marginally constrain business activity, we believe the overall effect on economic activity would be modest – around 25 cents for each dollar of tax increase. Comparing the Biden-lite proposal with the 2018 TCJA is quite instructive. The law featured a 14pts cut to the statutory tax rate, a five-year bonus depreciation allowance, and profit repatriation. We estimate the boost to business investment growth was about 2ppts, while the lift to GDP was around 0.3ppts. In that regard, our Biden-lite scenario featuring a statutory tax rate hike of only 3pts should lead to a modest effect on businesses.

Figure 2: A progressive income tax proposal



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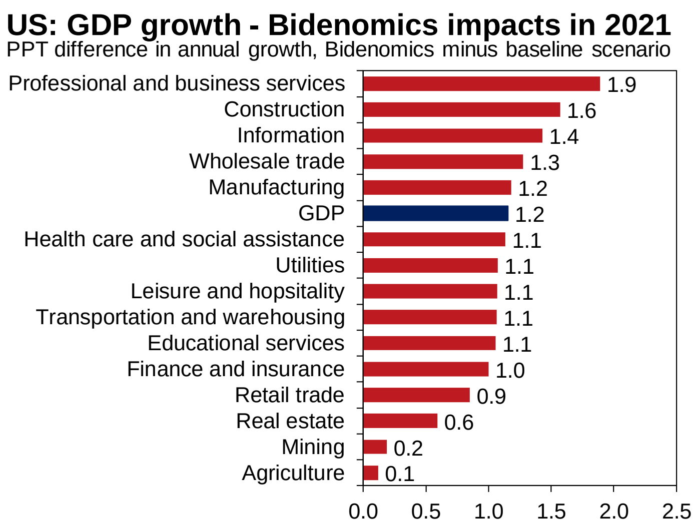
- **Analyzing Joe Biden's policy agenda, we find that all industries and states would fare better than they would under a status quo policy environment. Model simulations indicate that the professional and business services industry stands to gain the most, supported by Biden's "Build Back Better," high-tech investment, and infrastructure plans.**
- **Construction and information industries would follow close behind, bolstered by our Bidenomics assumption of $1tn in infrastructure and clean energy spending as well as Biden's "Buy American" and housing plans.**
- **Among the large state economies, California would benefit the most, growing close to 2ppts faster than in our status quo policy baseline in 2021 – thanks to a lift from faster high-tech, professional and business services, and construction growth. The San Francisco Bay area would lead the charge at the metro level. Wyoming would grow only 1.1ppts faster, constrained by lagging agriculture and mining sectors.**
- **Midwestern political swing states would receive a boost in line with the lift to the broad economy. The economic structure of Iowa, Michigan, Ohio, Pennsylvania, and Wisconsin means Biden's infrastructure, education, health care, and R&D plans wouldn't significantly stimulate their activity.**
- **While our Bidenomics scenario assumes a 2022 hike in the statutory corporate tax rate and in individual income taxes, the modest effective business rate increase and nature of the income tax hike would limit their effects. We believe a Biden administration would be careful not to restrain the recovery.**

Figure 1: Model simulations show that Bidenomics will stimulate stronger activity in all US industries, with professional and business services benefiting the most



Source: Oxford Economics/Haver Analytics

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To assess the industry and regional implications of our latest Bidenomics scenario, we benchmarked simulations relative to our current baseline forecast, which assumes $1.2tn in stimulus, a second term for Trump, Republican control of the Senate, and Democratic control of the House.

Biden's tax and spending industry impacts

All industries benefit, with services outpacing goods (**Figure 2**). For individual industries, professional and business services receive the strongest near-term boost (**Figure 1**). Biden's "Build Back Better" plan; his desire to pursue innovations in biotech, medicine, clean energy, artificial intelligence, and telecommunications; and his infrastructure plan would stimulate high-tech activity and lift professional and business services growth by 1.9ppts relative to our current 2021 baseline forecast and create 160k more jobs.

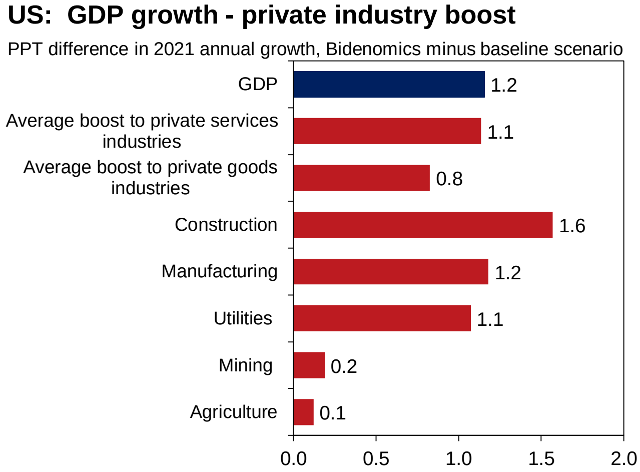
The slated $1tn of infrastructure and clean energy spending and the "Buy American" and housing plans would also provide a strong lift to construction (+1.6ppts to 2021 growth and +70k jobs), followed by information (+1.4ppts to 2021 growth and +11k jobs), which would expand the second-fastest within services. Enhancements to the Affordable Care Act as well as K-12 and secondary education would deliver respective industry growth boosts about in line with GDP (on average +1.1ppts to 2021 growth and +15k jobs in both industries relative to our 2021 baseline).

Industries tied to consumer spending also benefit (**Figure 1**). Biden's 2022 tax plans would weigh nearly entirely on high-income earners, but their low marginal propensity to consume means total consumer spending won't be strongly affected. The healthier jobs market would lift low- and middle-income earners' spending power and improve 2021 prospects for leisure and hospitality (+1.1ppts to 2021 growth and +44k more jobs) and retail trade (+0.9ppts to 2021 growth and +34k more jobs).

Manufacturing would grow 1.2ppts faster than in our 2021 baseline and create 45k more jobs. The impact would be disparate across sectors (**Figure 3**), with infrastructure-related goods receiving the largest boosts and those tied to consumer spending expanding more slowly.

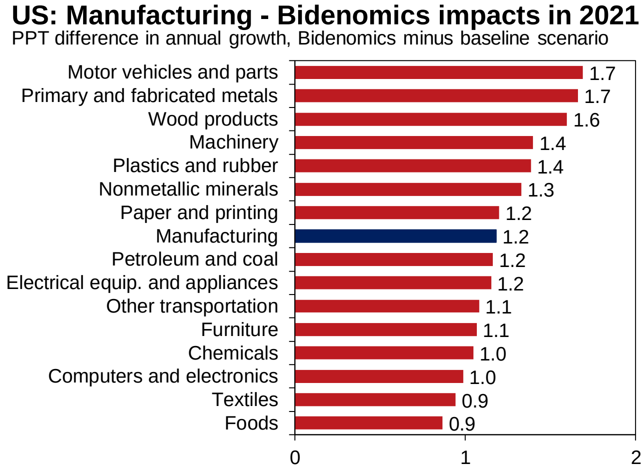
On the tax front, we assume the statutory corporate tax rate will rise 3ppts (from 21% to 24%) in 2022, but we judge the effective tax rate change would be minimal. Biden won't push to raise the tax burden while the economy is recovering from the recession. However, certain components of manufacturing, real estate, and mining may face the greatest rise in their burdens since they benefitted most from the 2017 Tax Cuts and Jobs Act (TCJA) (**Figure 4**).

Figure 2: Bidenomics benefits services slightly more than goods



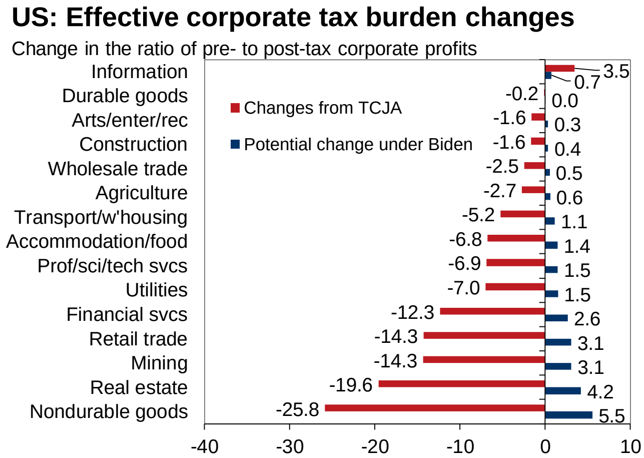
Source: Oxford Economics/Haver Analytics

Figure 3: Bidenomics provides a varied lift to manufacturing sectors



Source: Oxford Economics/Haver Analytics

Figure 4: Biden's proposals will reverse broad cuts in corporate tax rates



Note: Include taxes and other financial costs, such as charges and penalties
Source: Oxford Economics/Haver Analytics

Biden’s fiscal policies will lift all states

All areas of the country would benefit from Biden’s policies (**Figure 5**), coming at a crucial time as our state and metro Recovery Trackers indicate the rebound has slowed. Services-oriented states on the coasts would receive a welcome lift in activity, and Biden’s policies would also deliver a boost to goods-oriented states in the Midwest and South (**Figure 5**). The capital-intensive nature of Biden’s plans means the employment impact will be smaller than the output lift (**Figure 6**).

Looking at the largest state economies, the improvement of California’s growth (+1.7ppts) would surpass all others, though Georgia’s and Florida’s (+1.4-1.5ppts) and New York’s (+1.4ppts) won’t trail far behind. Texas’ growth would lag most other large states (**Figure 5**), dragged down by the small boost to mining, which accounts for a relatively large share of state GDP, at about 15%.

The simulation indicates that professional and business services growth would accelerate 1ppt-3ppts faster across all states relative to the 2021 baseline. Biden’s policies would most significantly strengthen states and localities with large concentrations of high-tech and professional and business services activity, namely California’s San Francisco Bay Area (**Figure 7**). Smaller cities with a footprint of high-tech and professional and business services such as Austin, Texas; Charlotte, NC; and Seattle, Wash. would also receive a spurt of growth (**Figure 7**).

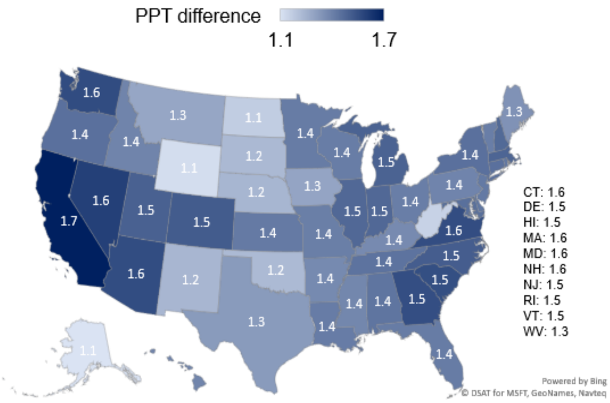
Activity in the South would strengthen, with growth in Georgia and the Carolinas slightly outpacing their neighbors (**Figure 5**), thanks to their relatively greater reliance on professional and business services, advanced manufacturing, and high-tech industries. Southern states that rely more on traditional manufacturing would lag.

Biden’s policies would benefit Wyoming least of all states from an output perspective. This is largely because it relies heavily on mining and agriculture, which account for a combined 30% of state GDP, the highest of any state (compared to about 5% on average).

Midwestern states would grow at different paces (**Figure 5**). The small boost to agriculture weighs on the Dakotas, while Illinois and Michigan would grow at the fastest rate, thanks largely to their greater reliance on professional and business services. The simulation signals that the Midwestern political swing states, which we predict will vote for Biden, will receive a growth boost in line with national GDP.

Figure 5: Biden’s tax and spending policies would lift activity across states

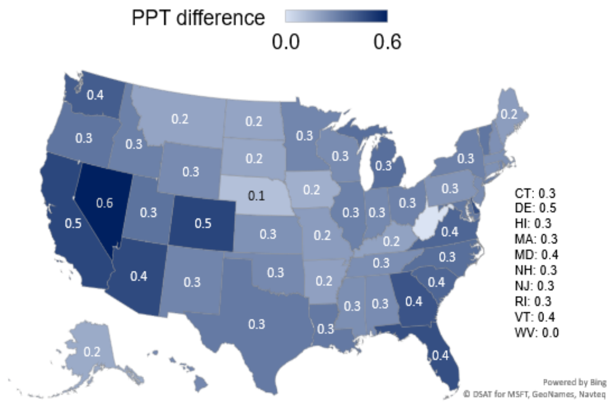
US: State GDP, difference in 2021 annual growth between Bidenomics and baseline



Source: Oxford Economics

Figure 6: The increase in employment would be smaller than in output

US: State nonfarm employment, difference in 2021 annual growth between Bidenomics and baseline

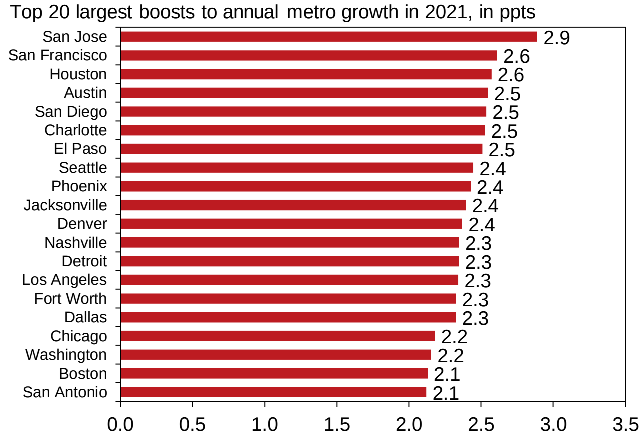


Source: Oxford Economics

Figure 7: Biden’s policies deliver the greatest growth boosts to Western and Sunbelt metros

US: Largest metro growth boosts from Bidenomics

Top 20 largest boosts to annual metro growth in 2021, in ppts



Source: Oxford Economics/Haver Analytics

Appendix

Oxford Economics' Global Industry Model provides a framework for accessing Oxford Economics' industry forecasts and for building scenarios around individual projections. The model is globally integrated and transparent so that changes are reflected throughout to show the impacts of key macro drivers across 74 countries and 100 sectors. Forecasts are derived from key macroeconomic drivers from Oxford Economics' Global Economic Model.

Oxford Economics' US Cities and Regions Model produces forecasts for key economic indicators for all 50 states, 382 Metropolitan Statistical Areas, and 3,142 counties. The model is fully integrated with Oxford Economics' Global Economic Model and Global Industry Model, ensuring that subnational forecasts are consistent with the macroeconomic and industry forecasts.

Fiscal assumptions included in our Bidenomics scenario:

Bidenomics

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Payroll taxes	$740	$0
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Estate tax	$220	
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Source: Oxford Economics, Tax Policy Center, Committee for Responsible Federal Budget, www.joebiden.com