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PRESIDENT BIDEN'S INAUGURATION: 100 DAYS TO SAVE AMERICA?

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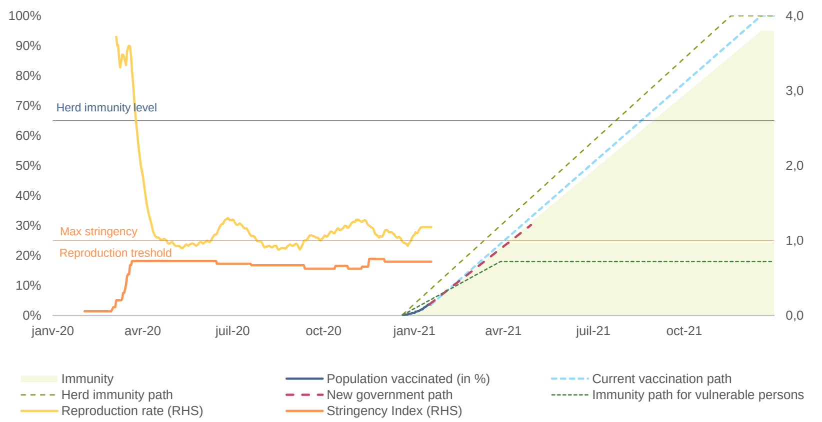
On 20 January, Joe Biden takes over as the 46th president of the US with the promise of a USD1.9trn stimulus package and a plan to distribute 100 million vaccine doses in his first 100 days. According to our calculations, the latter goal is largely achievable, matching the pace of distribution observed in the US during the last week. In the last seven days, the US has indeed reached a vaccination rate of about 1 million per day (0.3% per day). The path to herd immunity at the end of Q2/beginning of Q3 is thus well underway in the US. The most vulnerable part of the population (65+ and chronically ill, about 20% of the total) should have already achieved immunity by the end of Q1 at this rate, which would allow some relaxation of restrictions.

However, the virus is still spreading rapidly, and the reproduction rate continues to exceed 1. The health care system is under high stress: At 400 hospitalized per million, the pressure is double what it was in March and July 2020. Of those hospitalized, 72 are in ICU treatment, also well above the level seen in March or July. This shows that the continuation of the current vaccination campaign alone will not be enough to contain the economic and human cost of the sanitary crisis in the US.

Figure 1: Racing for immunity in the US



Sources: National reports via Our World in Data, Allianz Research

When it comes to *Bidenomics*, we believe a softer stimulus is more likely to pass the Congress hurdle. In our central scenario (60% probability),

President Biden is likely to secure sufficient support for most of the plan, including stimulus checks of USD1,400, but would have to compromise on the extent of local and state support. Following the CAREs Act voted in March 2020 (USD2.2trn) and the Response and Relief Act (USD0.9trn) voted in December 2020, President Biden's USD1.9trn stimulus plan also focuses on the same short-term priorities: direct support for individuals and families through stimulus checks and enhanced unemployment insurance; supplementary health care spending to fight the virus; local and state financial support and tax credits (Table 1). Biden has confirmed that this plan would not be financed via higher taxes.

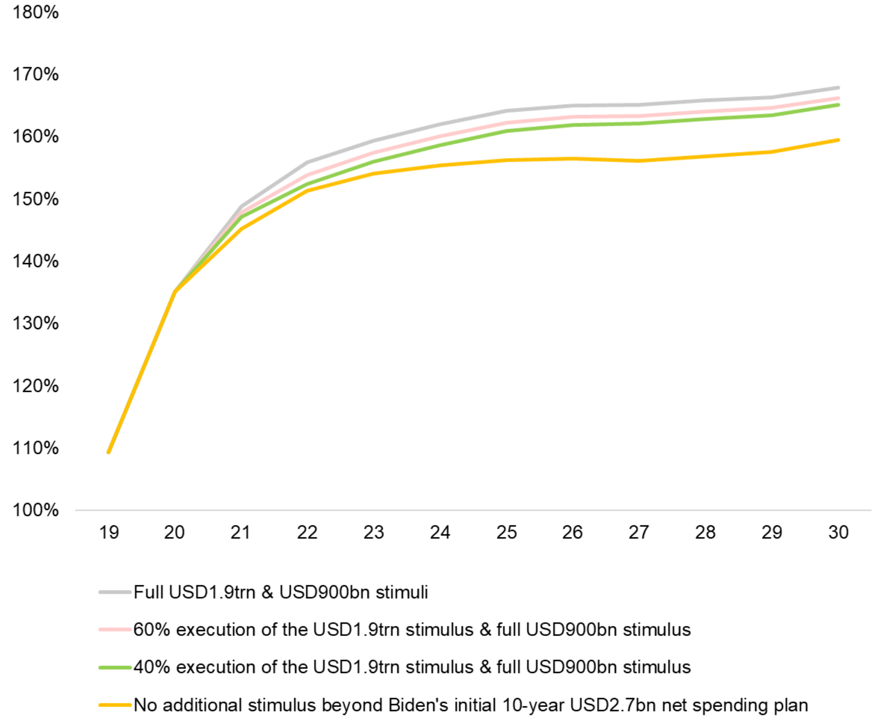
Table 1: Details of President Biden's stimulus plan

Expense categories	Amount (Bn)
Provide $1,400 per person "Recovery Rebates" on top of the $600 already issued	465
Provide aid to state and local governments	350
Increase Unemployment Insurance supplement to $400/week and extend emergency UI provisions through September	350
Provide funding for a national vaccination program, testing, and other COVID containment efforts	160
Fund school reopening and increase funding to schools and colleges	170
Expand the Child Tax Credit to a refundable $3,000 per child, $3,600 for children under 6 (assuming one year)	120
Provide rental and small landlord support	30
Provide support to childcare providers	25
Other policy changes	200

Source: CBO, Committee for a responsible Federal Budget, Allianz Research

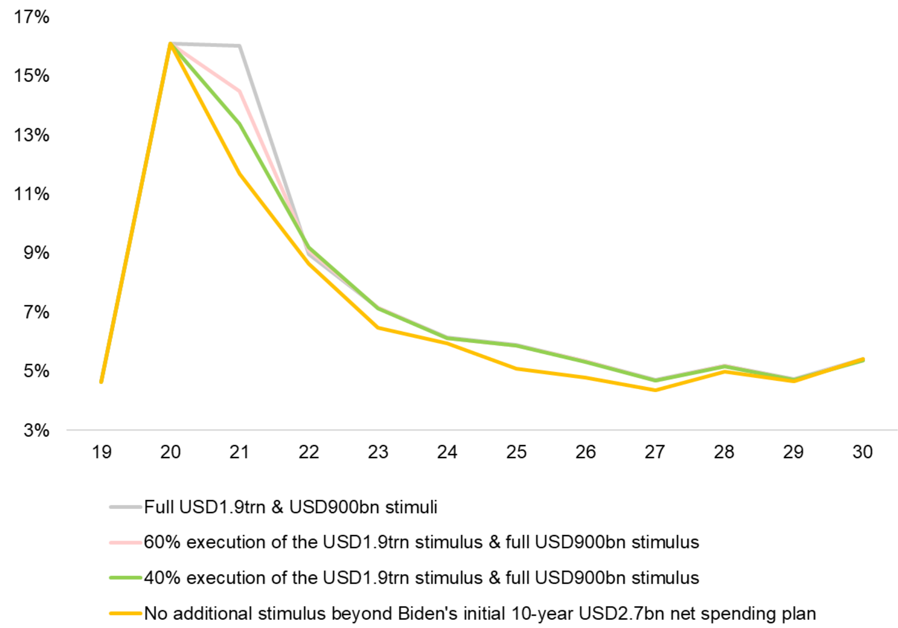
However, during his campaign, Biden had promised a USD6.4trn jump in total gross spending, especially on infrastructure, health and education, partly financed by not less than USD3.7trn in additional tax revenue (net of minor increases in tax credit), making his 10-year net stimulus plan reach USD2.7trn. Such promises of expansionary fiscal policy belonged to a pre-Covid-19 world in which no USD900bn Response and Relief Act and no USD1.9trn American Rescue Plan were expected. Both add to the overall spending program over ten years, although not by their full face value, as part of them might materialize through some frontloading of the initial USD6.4trn package promoted by Biden throughout his campaign. Still, we forecast a total gross stimulus of USD8trn (+USD1.6trn) in our central scenario, whereby only 60% of the American Rescue Plan would truly unfold. In the high and low scenarios (detailed below), gross stimulus would end up reaching USD8.4trn (+USD2trn) and USD7.8trn (+USD1.4trn), respectively. As a result, the public debt and deficit as a percentage of GDP should markedly increase (see Figure 2 and 3), causing the former to follow a path systematically above the one we had initially forecasted, despite a return to a similar real growth potential in the long run. In 2030, the US public debt could reach 166% of GDP (7pp above our previous forecast).

Figure 2: US public debt in percentage of GDP



Sources: Allianz Research, CBO

Figure 3: US public deficit in percentage of GDP



Sources: Allianz Research, CBO

Indeed, though President Biden will likely benefit from his inauguration momentum, his capacity to pass the American Rescue Plan remains uncertain as we expect some pushback:

- *Slim majority*: Although Democrats were able to clinch the senate majority from the Republicans, they are still far away from the 60-vote threshold to avoid filibusters and pass legislation without any Republican support. President Biden may use budget reconciliation to bypass a potential Republican blockade but this will involve losing his bipartisanship spirit and can only be used once in the year, meaning that further fiscal stimulus (infrastructure projects and his New Green Plan) would not escape the harsh reality of votes in the senate.
- *Profligacy*: Some Republican congressional representatives have already criticized the size and scope of the proposed bill, especially regarding its impact on the country's national debt. Most of them may also argue that the stimulus bill voted in December is sufficient and that new stimulus is unnecessary. Nevertheless, most of them recognize the need to bring the economy back on track as well as the political cost of not voting a bill designed to help their constituents. Moreover, Republicans may not want to be considered as obstructionists right away.
- *Congressional agenda*: The congress is already busy with the impeachment proceedings and will also be concentrating on President Biden's cabinet confirmation hearings. Debates around this new stimulus package are likely to wait for a couple weeks, especially if it is controversial. In current circumstances, the longer it takes to deploy this new stimulus, the higher the cost of the current restrictions on economic activities amid record high Covid-19 cases and deaths.

As a result, we defined three fiscal paths for the Biden Presidency:

1. High scenario: USD1.9trn, 30% probability

President Biden and the Democrats are able to pass their full stimulus proposal, either by garnering enough Republican support or through budget reconciliation. Although possible, this scenario remains unlikely given President Biden's congressional challenges. The US public debt level would rise to 148.8% of GDP in 2021, compared to the 135% of GDP expected in 2020. Growth would reach +4.7% y/y in 2021 and +2.7% y/y in 2022, against +3.6% y/y and +3.1% y/y in our previous forecast, respectively. In this scenario, the Fed could have to envisage a rate hike as early as H2 2022 compared with our current scenario of a first move taking place in H2 2023.

2. Central scenario: USD1.2trn, 60% probability

In this scenario, President Biden would be able to secure sufficient support for most of his stimulus package, especially for the USD1,400 stimulus checks also demanded by Trump, but would have to compromise on other variables, especially local and state support, to gain sufficient Republican support. This scenario would spare the new president from using the reconciliation process, allowing him to pass a new stimulus dedicated to medium-term and long-term objectives such as infrastructure projects and the "Plan to Build a Modern, Sustainable Infrastructure and an Equitable

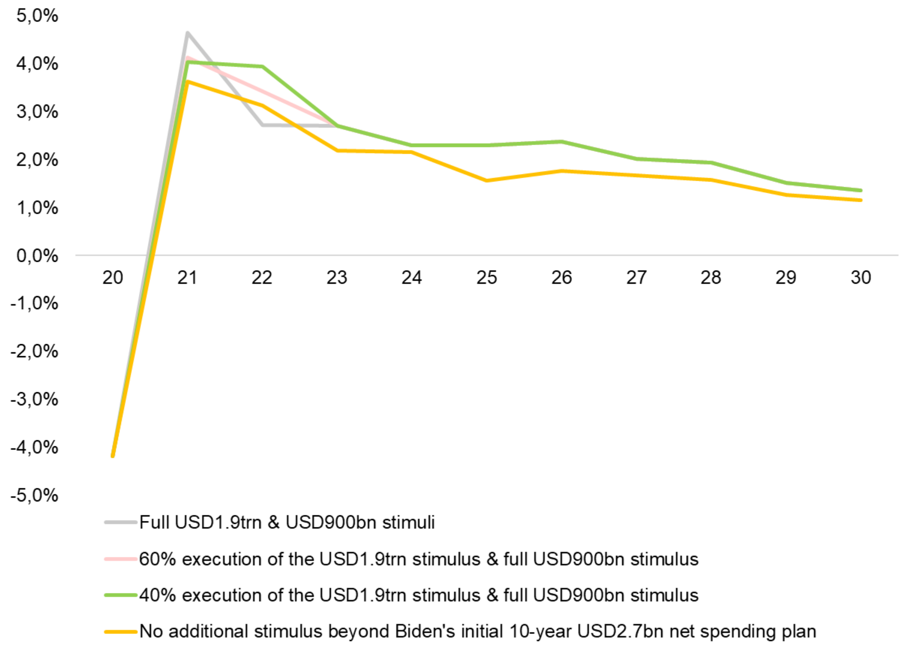
Clean Energy Future". This scenario seems the most likely as a compromise bill would allow both parties to claim a political victory (Democrats for a new stimulus and Republicans for the concessions obtained). In this context, US GDP growth would be lower in 2021 compared with the "high scenario" (+4.1 % y/y) but higher in 2022 (+3.4% y/y), thanks to the voting of another round of stimulus in the second half of 2022. In such circumstances, the Fed could have to start a tapering process from H2 2022 being followed by a first rate hike in the beginning of H2 2023.

3. Low scenario: USD0.7trn, 10% probability

In an adverse scenario, President Biden would only be able to secure a small share of his additional stimulus (less than 40%) via reduced supplementary payments to households and some financial support to fight against Covid-19 as Republicans would be only willing to accept the bare minimum to support the economy. However, even in this configuration, GDP growth and also public debt would outperform the trajectory of growth and debt that we have in our current scenario (yellow curve in Figure 2 below). In this scenario, the Fed would envisage a rate hike only from the end of 2023 onwards.

Given the accumulation of debt **in the three scenarios, we remain convinced that the potential of growth of the US economy will be negatively impacted over the medium-term, declining from 2% y/y in 2020 to 1.4% y/y at the horizon of 2030**.

Figure 4: GDP growth in alternative scenarios of Joe Biden's new fiscal stimulus



Sources: IHS, CBO, Allianz Research

Bidenomics **includes a major bone of contention: Doubling the federal minimum wage. The risk of re-activating a wage-salary loop with an average 4% y/y level of inflation between 2021 and 2026, the time needed to converge toward this threshold, is non negligible.** Though there is no clarity on its inclusion in the USD1.9trn package, President Biden has made it clear that he will try to push for a doubling of the federal minimum wage from USD7.25 an hour to USD15 an hour. This proposal, though increasingly popular in the US, remains far from bipartisan. Net outcome on jobs over the medium-term is unclear, even if redistributive effects are less questionable. In our view, doubling the minimum wage seems to be a less realistic proposal, given the partisan aspect and the potential risk of destabilization that it could represent for jobs creation at the micro-level, and perceived inflationary consequences in the current fiscal-monetary policy mix.

We calculated that doubling the minimum wage could lead to average inflation of 4% y/y between 2021 and 2026. When considering the case of a rise to USD11 an hour only over the same horizon, we estimate an average level of inflation amounting to 2.6% y/y. In a previous study, we modelled the less likely scenario (15%) of reflation morphing into inflation in the US. To verify if this one policy choice could trigger a wage-setting-price-setting loop, we considered the average acceleration of the unit labor cost, which followed past episodes of federal minimum salary hikes, and factored in a six-year transition toward this level of USD15 an hour, as studied by the Economic Policy Institute ("Raising the federal minimum wage to $15 by 2025 would lift wages for over 33 million workers", July 2019).

These assessments are, as always, subject to the disclaimer provided below.