

BIDENOMICS

THE ECONOMIC STRATEGY OF THE BIDEN ADMINISTRATION

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In less than six months since his inauguration as US President, Joe Biden's administration has staked out a new agenda for US policymaking, breaking with the previous four decades of Republican and Democratic domestic economic policy to focus deliberate government action on job creation, addressing racial equality, environmental goals, and rebuilding American manufacturing industry. This briefing breaks down the emerging details of the programme for a UK audience and lays out the main political conclusions.

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EXECUTIVE SUMMARY

Joe Biden's election as 46th President of the United States represents a further break with the economic agenda of the last forty years. Whilst Donald Trump had already turned sharply against the trade policy of the last few decades, promoting "America First", protectionism, and aggressive tariff wars against competitor economies – primarily China, but also the European Union – his domestic economic strategy was close to that of previous Republican Presidents since Reagan: tax cuts for the wealthiest, indifference to the government deficit, and (despite promises) weak public capital investment.

The economic programme, as presented in the Biden-Harris campaign and then formulated and presented by the Biden Administration in the first few months of 2021, did not emerge out of nowhere. Instead, deliberate efforts were made to build coalitions of political support across the Democratic Party after a prolonged (and sometimes fractious) nominations process left Joe Biden as the presumptive nominee by April 2020. The Biden-Sanders Unity Taskforces, in particular, were central to its development, drawing on different wings of the Democratic Party's support to formulate a programme that could command support from across the party. In contrast to the 2016 campaign of Hilary Clinton, the Biden campaign and now administration has deliberately sought to hold together a coalition that stretches across the whole party, so far with notable success.

The programme, as laid out by President Biden over the first 100 days of his administration, therefore represents a significant break with Democratic Party practice for the last three decades. It maintains a distinct continuity with Donald Trump's trade position, winding back some of the aggressive rhetoric but not fundamentally shifting it back to a pre-Trump, pro-market position, such as that pursued by Barack Obama or (more so) Bill Clinton in office. Trump's "America First" has been replaced by a "Made In America" programme of investment and domestic preference, beefing up federal procurement rules and planning huge increases in federal support for manufacturing and research in particular. That increase in investment and more overt government intervention is explicitly tied to the administration's goals of meeting ambitious environmental targets; promoting quality jobs across the US; tackling racial inequality; and strengthening the US' position against China.

The domestic economic programme, "Build Back Better", comes to \$6.3tr of spending promises from government, of which \$1.9tr has already been delivered through coronavirus spending. To be spent over the next decade, the remaining part consists of:

- American Jobs Plan (proposed 31 March 2021): \$2.7tr for investment and business support

- American Families Plan (proposed 28 April 2021): \$1.7tr for welfare and education spending¹

Both plans will be largely financed through tax increases on the wealthy and corporations, with Biden holding to a promise that those earning under \$400,000 would see no increases in their main rate of taxation. The US has significantly more flexibility in financing of any expenditure, since it still enjoys the use of the world's dominant currency, the dollar, and as such can borrow at very low interest cost. Nonetheless, the plans are matched with tax rises to provide a secure, long-term base for their funding.

- **The UK equivalent for the whole programme (using share of 2020 GDP as the baseline) would be £560bn: £170bn for immediate coronavirus relief; £240bn for investment and business support; £150bn for welfare and education.**

This is combined with a broader domestic agenda to promote workers' rights, notably in the Promoting Rights to Organise Act (PRO Act), which seeks to reverse many of the post-1981 changes to US labour legislation, restoring the right to secondary picketing amongst others. This, arguably, represents the biggest single breach with the previous forty years of successive government policy where, much like the UK, the lean has been towards restricting the abilities of unions to represent and organise those at work.

For progressives and the labour movement in the UK, the outstanding features of the Biden economic programme are:

1. **Its construction, deliberately, as an effort in coalition-building across the Democratic Party, stretching from left to centre, and becoming a genuine attempt to create a popular consensus.**
2. **Its willingness to adopt a quasi-populist language, focused on delivering for workers, and attaching this to large-scale promises of spending and investment across the country.**
3. **Its willingness to challenge long-standing (if presumed) "truths" in economic policymaking, which includes its promotion of government spending as a potential good in itself, the broadening of the concept of investment to include care expenditures, and raising taxes on the wealthy and corporations.**
4. **Its ambitions to steer future trade deals and relationships by the needs of domestic producers, notably in manufacturing, and its willingness to shape those deals and relationships around the delivery of high-quality jobs. For a United Kingdom now outside of the European Union, this point suddenly has a relevance.**

¹ Stein, J.; Douglas-Gabriel, D.; Meckler, L.; Kitchener, C. (April 28, 2021). "White House proposes \$1.8 trillion package that would dramatically expand education, safety net programs", *The Washington Post*.

Introduction

Joe Biden's first few months as 46th President of the United States, in the midst of the country's gravest peacetime emergency, have seen a dramatic reverse of the accepted wisdom on economic governance, with huge spending programmes presented to not only tackle the immediate health crisis of covid-19, but to lay out a decidedly different path for the US recovery.

The speed and sense of purpose with which Biden's three-pronged "Build Back Better" strategy has been brought forward has invited comparisons to the Franklin Roosevelt's New Deal, taking commentators across the political spectrum by surprise. But in practice a programme of this size and scope could only have been drawn up on the basis of significant preparatory work, both in the technical details – and, crucially, in winning political support.

The four years of Donald Trump's Presidency had seen the growth of a social democratic and socialist left in the US of a size and social weight that had not existed since perhaps the 1950s. Bernie Sanders' two campaigns for the Democratic Presidential nomination, coming closest in 2020, were the most obvious political expression for this new left, but so, too, was the arrival of more radically-minded and even self-described socialists to elected office at local, state, and federal levels. The Black Lives Matter protests, by some estimates the largest mass movement in US history, erupted over the summer of 2020, giving political shape to crisis of racial injustice. And the emergence of the climate change movement as a political force, with the Green New Deal as its central demand, opened a new space for political action.

Biden emerged as the presumptive nominee for Democratic candidate after decisive victories in the party primaries against Bernie Sanders, longstanding standard-bearer for the left who had, in a crowded field, emerged as the frontrunner in early 2020. But, critically, and in recognition of the changed political realities inside and outside of the Democratic Party, the Biden team – in stark contrast to Hilary Clinton's in 2016 – made deliberate efforts to reunite the party after what had been an occasionally fractious (and prolonged) primary process.

This is the fundamental political background to the emergence of "Bidenomics": as a compromise between the centre and left of the Democratic Party, with a longstanding self-described moderate at its head. It is a programme that identifies the core challenges now facing US society, and has laid out what are (by recent standards) bold actions to meet them. In doing so, the programme has helped hold together the Democrats' extended and sometimes unwieldy coalition.

Biden's own reputation and familiarity helped the Democrats win back Wisconsin, Michigan and Pennsylvania – the breakthrough so-called "Rust Belt" states Trump won in 2016. Biden increased the Democrat's vote share amongst white "working class" men from 23% in 2016 to

28% in 2020,² and amongst white working class women from 34% to 36%.³ These are by no means decisive victories, but folksy rhetoric alone does not explain the swing, and nor could it alone have swung the crucial votes in majority black cities like Atlanta. The political coalition had to be held together on the basis of a clear programme and vision, and to expand the Democrat's 2016 base of support against a Republican Party that, in raw numbers, significantly increased its own vote.

² Here taking no college degree as a proxy for "working class".

³ Williams, J.C. (10 November 2020), "How Joe Biden won back (enough of) the working class", *Harvard Business Review*. At: <https://hbr.org/2020/11/how-biden-won-back-enough-of-the-white-working-class>

Developing the programme

Building political support across the Democratic Party has been crucial to the success of the campaign and the programme thus far, in striking contrast to Clinton's 2016 strategy. President Biden's programme on entering office is the product of a previous year of negotiation and political coalition-building inside the Democratic Party. Central to this were the Biden-Sanders Unity Taskforces were set up in the aftermath of the 2020 Democratic Presidential primaries. With Bernie Sanders conceding in April 2020, and almost immediately endorsed Joe Biden as a candidate, the Taskforces were established in six policy areas: climate change, criminal justice reform, the economy, education, health care, and immigration. The deliberate intention, made clear by both Sanders and Biden in their joint announcement, was to (as far as possible) close the divide between their two wings of the Democratic Party.⁴

- Each taskforce was co-chaired by one representative from each of the nominees' campaign, with politicians and outside experts making up the committees. John Kerry and Alexandria Ocasio-Cortez jointly chaired the climate change Taskforce, for example.
- Each Taskforce presented its final report on 8 July, with detailed recommendations for each policy area.

On economic policy, the final report summarising the agreed positions was published on 29 July, 2020. Key commitments included:

- Raising the minimum wages to \$15 per hour. Passing the PRO Act, restoring union rights including the right to secondary action, and repealing "right to work" laws restricting shopfloor organisation.
- At least 12 weeks of paid family and medical leave for all workers "and family units".
- Raising corporate taxes, rejecting "trickle down" tax cuts, and raising estate taxes "to their historic norm"
- "Historic" investments in clean energy, clean transportation, energy efficiency, and clean and advanced manufacturing. All green jobs to be union jobs. Repairing existing transport infrastructure and investing in high-speed rail to launch a "second railroad revolution".
- Major investment in high-speed broadband, supporting public and community ownership.

⁴ Vox (13 April 2020), 'Bernie Sanders endorses Joe Biden: "We need you in the White House"'. At: <https://www.vox.com/policy-and-politics/2020/4/13/21219537/biden-sanders-endorsement-2020-democratic-primary>; NPR (13 May 2020), 'Biden And Sanders Announce Task Forces To Find Party Unity Over Policy'. At: <https://www.npr.org/2020/05/13/855203151/biden-and-sanders-announce-task-forces-to-find-party-unity-over-policy>

- Major investment in R&D, with a focus on advanced manufacturing and decarbonisation. Establish ARPA-C, an Advanced Research Projects Agency focused on climate technology.
- End incentives for offshoring and promote onshoring of critical supply chains, including pharmaceuticals. “Made in America” programme to promote US manufacturing, including through the use of government procurement.
- Investment in the caring workforce, including by directing significant funding to state and local governments to retain and hire more teachers, public health professionals, nurses, home care workers, social workers, and other critical positions.
- make energy efficiency upgrades for millions of low-income households in metropolitan and rural areas, affordable housing units, and public housing units.
- A trade policy that “puts workers first” through “strong and binding standards for labor, human rights, and the environment” in trade deals.

Although not including some radical demands (notably a federal Jobs Guarantee and Medicare for All), this is comprehensive economic package that represented a major break with the policy of successive US governments over the last four decades.

- A “senior Biden aide” told Vox this would be the “largest mobilization of public investments in procurement, infrastructure and [research and development] since World War II.”⁵
- The blurb accompanying the Unity Taskforce document claimed it would commit the Democrats to “forging a new social and economic contract with the American people—a contract that invests in the people and promotes shared prosperity, not one that benefits only big corporations and the wealthiest few.”

The detailed proposals in the Unity Taskforce documents are strikingly close to the eventual Biden-Harris economic programme in the 2020 election. They can be taken as attempting to find a common programme for the US left and centre-left.

The Biden-Harris election programme was organised around four “great, national challenges”:

- “Mobilize American manufacturing and innovation to ensure that the future is made in America, and in all of America.”

⁵ Quoted in Nilsen, E. (9 July 2020), “How Joe Biden and Bernie Sanders joined forces to craft a bold, progressive agenda”, *Vox*. At: <https://www.vox.com/21317850/joe-biden-bernie-sanders-task-forces-progressive-agenda>

- “Mobilize American ingenuity to build a modern [infrastructure and an equitable, clean energy future](#).”
- “Mobilize American talent and heart to build a 21st century [caregiving and education workforce](#) which will help ease the burden of care for working parents, especially women.”
- “Mobilize across the board to advance [racial equity](#) in America.”⁶

Alongside detailed proposals for each challenge, the campaign highlighted overall:

- \$15/hour minimum wage and passing the PRO Act as a priority.
- Universal paid sick days and 12 weeks paid family and medical leave.
- “reversing some of Trump’s tax cuts for corporations and imposing common-sense tax reforms that finally make sure the wealthiest Americans pay their fair share.”
- Accelerated infrastructure investment to create jobs and sustain demand.⁷

⁶ Biden-Harris campaign site, “Build Back Better”. At: <https://joebiden.com/build-back-better/>

⁷ Biden-Harris campaign site, “Build Back Better”. At: <https://joebiden.com/build-back-better/>

Spending commitments so far

Since taking office on 21 January 2021, President Biden has spent or committed to spending \$6.3tr – easily the most significant US government intervention in the economy since the New Deal of the 1930. The UK equivalent of this promise today would be approximately £570bn of spending. However, despite commentary suggesting otherwise, this huge programme is in line with the policy offer as developed since Joe Biden became the presumptive Democratic nominee in April 2020.

The whole programme, dubbed “Build Back Better”, divides into three parts:

- **American Rescue Plan (passed into law 11 March 2021): \$1.9tr for immediate covid-19 relief**
- **American Jobs Plan (proposed 31 March 2021): \$2.7tr for investment and business support**
- **American Families Plan (proposed 28 April 2021): \$1.7tr for welfare and education spending⁸**

As detailed by Brian Deese, director of the National Economic Council and President Biden’s chief economic advisor, the administration has three long-range economic priorities:

1. Addressing climate change
2. Reducing inequality (in multiple dimensions: income, wealth, regional, racial)
3. Addressing the economic challenge from China.⁹

American Rescue Plan

The American Rescue Plan builds on the March 2020 CARES Act and the December 2020 Consolidated Appropriations Act to provide temporary federal government economic relief to mitigate the impacts of the ongoing covid-19 pandemic in the United States. It is slightly smaller in overall size compared to the \$2.2tr CARES Act, but this reflects its shorter expected lifespan and the provisions for direct support to citizens (notably the \$1,400 stimulus cheques) are more generous. Much of the funding extends existing support from 2020, seeking to remove the risks of cliff-edges appearing in welfare assistance whilst the pandemic is ongoing.

⁸ Stein, J.; Douglas-Gabriel, D.; Meckler, L.; Kitchener, C. (April 28, 2021). "[White House proposes \\$1.8 trillion package that would dramatically expand education, safety net programs](#)", *The Washington Post*.

⁹ Summarising interview here: Klein, E. (21 April 2021), “The best explanation of Biden’s thinking I’ve heard”, *New York Times*. At: <https://www.nytimes.com/2021/04/09/opinion/ezra-klein-podcast-brian-deese.html>

- The Act passed with unanimous Democratic support (and unanimous Republican opposition) in both Houses, but some proposals were scaled back under pressure from fiscally conservative Democratic Senators including Joe Manchin.

The major provisions are:

- A third round of direct-payment stimulus cheques have been sent to eligible recipients. Following negotiations in Senate, these have a degree of means-testing. Individuals with annual incomes of \$75,000 or less received \$1,400 (plus \$1,400 for each eligible dependent). This phases out from \$75,000 to \$80,000, after which no cheques are paid.
- The Act extended the three major unemployment insurance programmes created by the CARES Act. It should be noted that this continues the broad direction of support from 2020, which favoured relative generosity for those pushed out of work, rather than (as in the UK furlough scheme) protections to keep employees in receipt of an income:¹⁰
 - The Pandemic Unemployment Assistance (PUA) programme, intended to cover workers who are otherwise ineligible for relief (such as self-employed contractors) has been extended from March 14 to September 6, 2021 and the number of eligibility weeks have been increased from 50 to 79.
 - Pandemic Emergency Unemployment Compensation (PEUC) provides additional weeks of unemployment insurance benefits for people whose state-level unemployment benefits have run out. PEUC has also been extended from March 14 to September 6, 2021.
 - The Federal Pandemic Unemployment Compensation (FPUC) program, which boosted all unemployed support by \$300 a week has been extended from March 14 to September 6, 2021.
 - \$28.6 billion to establish the “Restaurant Revitalization Fund,” administered by the Small Business Administration. Restaurants, bars, lounges, caterers, and other concerns with no more than 20 locations and that are not publicly traded entities are entitled to apply to the fund for a wide range of ongoing costs for restaurants and similar small businesses, including rent and mortgage payments, staff sick pay, food and beverage costs, utilities bills and others.
 - \$350bn is being provided to state, local and tribal governments to compensate for the shortfall in tax revenues that has resulted from the pandemic and lockdowns.

¹⁰ Following sourced from *The National Law Review* (12 March 2021), “American Rescue Plan Act Signed: details on the latest covid-19 relief package”. At: <https://www.natlawreview.com/article/american-rescue-plan-act-signed-details-latest-covid-19-relief-package>

American Jobs Plan

The main Biden spending package is the American Jobs Plan, totalling \$2.7tr, or equivalent to 10.4% of US GDP, as announced by the White House on 2 April 2021. This is in line with (although somewhat larger than) pledges made by Joe Biden later in the election campaign, which increased the infrastructure investment promised from \$1.7tr to \$2tr.¹¹

The whole package is intended to spent over 8 years, divided into the following major spending areas:

¹¹ Lombardo, J. (15 January 2021), "Biden announces plan for recovery, promises infrastructure next month", *ForConstructionPros.com*. At: <https://www.forconstructionpros.com/infrastructure/news/21232282/biden-plan-for-economic-recovery-includes-infrastructure>

	Investment (\$bn)	UK equivalent (£bn)
Transport infrastructure and resilience	596	53
Renew water infrastructure	111	10
Broadband investment	100	9
<i>Clean energy tax credits</i>	400	36
Decarbonising energy	98	9
Build and retrofit 2m homes and commercial buildings	212	19
Schools & college build and upgrade, new childcare facilities	137	12
Veterans' hospitals and federal buildings modernisation	27	2
R&D spending	180	16
Domestic manufacturing support	298	26
"Workforce development" (training and skills)	87	8
Expanding access to quality care	400	36
Total	2,646	235

Sources: White House (31 March 2021), "The American Jobs Plan". White House (May 2020), "Budget of the US Government", Table S-6. At: https://www.whitehouse.gov/wp-content/uploads/2021/05/budget_fy22.pdf. The original White House briefing did not contain tax credits but they are included here as they are a significant expenditure item. Fuller breakdown in the Appendix. UK equivalents derived from equivalent share of UK 2020 GDP.

Illustrative UK equivalents for this expenditure are shown, using equivalent shares of GDP for each line. A total expenditure of £235bn over 8 years is £30bn of additional capital spending every year. For comparison, the UK government has committed to £100bn of additional capital spending over the next five years, or £20bn a year.¹² The total plan is therefore one third larger than the size of the UK government's own capital spending ambitions.

Strikingly, this is a mix of traditional capital and infrastructure spending (including research and development, qualified under international accounting standards as capital investment) and what the Biden administration is calling "**social infrastructure**": care work and spending on training and development. The commitment to care expenditure explicitly includes improvements in the pay and conditions for care workers, who, as the White House briefing notes, "have been underpaid and undervalued for too long."¹³

- This is a sharp break with accepted government accounting practice and represents an important step forwards in ensuring that the value of expenditure on care and human capital is properly recognised as a value-producing investment, rather than simply personal consumption.

Polling for the American Jobs Plan has been very positive. 68% of Americans surveyed at the end of April supported the plan, including 64% of Independent voters. However, just 32% of Republican registered voters support the spending, compared to 94% of Democrats.¹⁴

American Families Plan

Announced shortly after the American Jobs Plan, the American Families Plan is a slightly smaller – but still enormously large by recent standards – programme to overhaul much of the provision for childcare, education and healthcare, plus additional financial support for families themselves. Coming in at \$1.7tr over 10 years, the Biden administration intends to fund virtually all of the plan through a series of personal tax rises aimed at the wealthiest (detailed in the next section).

¹² HM Treasury (3 March 2021), *Build Back Better: our plan for growth*. At: <https://www.gov.uk/government/publications/build-back-better-our-plan-for-growth/build-back-better-our-plan-for-growth-html#infrastructure>

¹³ White House (31 March 2021), "FACT SHEET: The American Jobs Plan". At: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/>

¹⁴ Monmouth University Poll (26 April 2021), "National: broad support for spending plans", Q11. At: https://www.monmouth.edu/polling-institute/documents/monmouthpoll_us_042621.pdf/

	Investment (\$bn)	UK equivalent (£bn)
Education		
Free, universal pre-kindergarten for all three- and four-year-olds	139	12
Tuition-free two-year community college	109	10
Increase Pell Grants for low-income students	85	8
Create completion grants for student supports	53	5
Provide two years of subsidized tuition for students from families earning less than \$125,000 enrolled in a four-year HBCU, TCU, or MSI	39	3
Funding to train, equip, and diversify American teachers	8	1
Expand existing institutional aid grants to HBCUs, TCUs, and MSIs	4	0.4
Provide funds for building a pipeline of skilled health care workers with graduate degrees	2	0.2
Education total	439	39
Families and Children		
Make child care affordable, invest in high-quality care, and fund training for child care providers	225	20
Create a national comprehensive paid family and medical leave program	225	20
Expand summer EBT to all eligible children nationwide	26	2
Expand free meals for children in the highest poverty districts	17	2
Launch a healthy foods incentive demonstration program	1	0.1
Facilitate re-entry for formerly incarcerated individuals through SNAP eligibility	1	0.1
Work with Congress to automatically adjust length and size of unemployment benefits based on economic conditions	n/a	
Invest in maternal care	3	0.3
Families and children total	498	44
Expanded Tax Credit Extensions		
Extend the Child Tax Credit expansions from the American Rescue Plan through 2025 and permanently make the Child Tax Credit fully refundable	449	40
Extend expanded ACA premiums tax credits from the American Rescue Plan	163	14
Make the American Rescue Plan Earned Income Tax Credit (EITC) expansion for childless workers permanent	105	9

Make permanent the temporary Child and Dependent Care Tax Credit (CDCTC) expansion enacted in the American Rescue Plan	82	7
Expanded tax credit extensions total	799	71
Grand total	1736	154

Source: White House (May 2020), "Budget of the US Government", Table S-6. At: https://www.whitehouse.gov/wp-content/uploads/2021/05/budget_fy22.pdf. Committee for a Responsible Fiscal Budget (28 April 2021), "What's in President Biden's American Families Plan?". At: <https://www.crfb.org/blogs/whats-president-bidens-american-families-plan>. UK equivalents derived from equivalent share of UK 2020 GDP.

Polling for the American Families Plan is also positive. 64% of Americans support the plan, including 64% of Independent voters. However, only 22% of Republicans support the AFP, against 95% of Democrats.¹⁵

Tax proposals

The American Jobs Plan is expected to be entirely financed by corporate tax rises over a 15 year period, with a \$600bn increase in the deficit expected after the first ten years that falls to zero as the planned tax rises bring more revenues in.¹⁶ The American Families Plan, similarly, is expected to be financed through personal tax rises over a 10 year period, but leaving a \$300bn increase in the deficit after the first ten years that is not expected to be closed.

- A conventional economics argument would suggest that investment spending does not need to be financed with taxes, since it produces a positive return over time – for example, building a new railway link can be expected to produce economic growth. When the rate of return is above the rate of interest, the investment can be easily funded through borrowing, in theory.
- Taxes are being used to fund these investments, however, to avoid the problem in the future whereby they need to be replaced or serviced, but funding is not authorised for them by a future government. By creating the revenue stream, the Biden administration hope to make it easier to fund investments in the future, too.¹⁷

The US still enjoys the "exorbitant privilege" of using the dollar as its domestic currency. High demand for dollars across the globe mean that the US government can always borrow at low interest rates, and since the 1980s successive governments have done so. Nonetheless, the Biden

¹⁵ Monmouth University Poll (26 April 2021), "National: broad support for spending plans", Q12. At: https://www.monmouth.edu/polling-institute/documents/monmouthpoll_us_042621.pdf/

¹⁶ Committee for a Responsible Federal Budget (2 April 2021), "

¹⁷ See comments by Council of Economic Advisors member Jared Bernstein on Bloomberg (13 May 2021), "Odd Lots", podcast.

spending plans are to be largely tax-financed to make them more secure against future government changes.

The table below summarises the headline proposals, with the best available estimates for the US revenue forecasts and UK equivalent measure provided for comparison.

Main revenue raising tax proposals in Biden plan

	US 10yr revenue (\$bn)	UK 10yr revenue equivalent (£bn)
Raise corporate income tax rate from 21 to 28 percent	857	76
Strengthen the global minimum tax for U.S. multinational corporations	533	47
Action on base erosion and profit-shifting	390	35
Enact a 15 percent minimum tax on corporate "book" income	148	13
Restrict deductions for excessive interest	18	2
Eliminate tax preferences for fossil fuels	86	7.6
Eliminate deductions for U.S. corporations related to offshoring jobs and create tax credits related to onshoring jobs	<i>Unknown</i>	
Ramp up corporate tax enforcement	<i>Unknown</i>	
Corporate taxes sub-total	2,033	181
Improve tax enforcement (minus \$80bn extra IRS funding)	718	64
Increase capital gains and dividends taxes (tax as ordinary income above \$1m, eliminate step-up basis above \$1m, close carried interest and real estate loopholes)	342	30
Apply 3.8 percent Medicare tax to all income above \$400,000	237	21
Increase top individual tax rate from 37% to 39.6%	132	12
Permanently extend the current limitation in place that restricts large, excess business losses	43	4
Personal taxes sub-total	1,471	131
Total	3,504	312

Sources: White House (31 March 2021), "The American Jobs Plan". White House (May 2020), "Budget of the US Government", Table S-6. At: https://www.whitehouse.gov/wp-content/uploads/2021/05/budget_fy22.pdf. Committee for a Responsible Fiscal Budget (28 April 2021), "What's in President Biden's American Families Plan?". At: <https://www.crfb.org/blogs/whats-president-bidens-american-families-plan>. UK equivalents derived from equivalent share of UK 2020 GDP.

Corporate tax rises

The bulk (48%) of the total forecast corporate tax revenue comes from an increase in the rate of corporation tax from 21 to 28 percent.

- This is the only significant increase in the headline rate of Corporation Tax in the US in nearly 30 years, and as such is a sharp reverse of previous policy.
- For comparison, the Budget 2021 increase in the UK's Corporation Tax rate from 19 percent to 25 percent (for large companies only) is expected to raise £48bn over the next five years, offset for two years by an extra £25bn in capital allowances.

It is coupled with moves to introduce a global minimum tax rate of 21 percent, in which US companies would be expected to pay the minimum on their global profits, regardless of the rate prevailing where those profits were booked.¹⁸ The European Commission and Canada have signalled their broad support for the move, and although the UK government initially opposed the move, an agreement on a 15 percent minimum tax rate was reached at June 2020's G7 summit in Cornwall. The Biden administration is hoping to win an agreement amongst the G20 ahead of their July meeting.

Other significant changes include restricting the ability of companies to claim expenses for investment in intangibles abroad, and a 15 percent minimum tax on "book" income for major corporations— meaning that, regardless of what other exemptions and reliefs a large company may claim, it will be expected to pay at least 15 percent of its US profits.

Personal tax rises

The biggest single revenue-raiser for personal taxes is expected to come from an improvement in enforcement and collection, based around a \$80bn increase in Internal Revenue Service (IRS) funding producing a \$780bn increase in tax revenues. US personal tax collection is relatively distinct, in that individuals are expected to produce their own tax returns, but the amounts anticipated to be raised are significant, equivalent to £6.5bn a year in the UK. For comparison, HMRC estimates that the "tax gap" for income tax, National Insurance Contributions and Capital Gains Tax was £12.1bn in 2018-19, although only £0.6bn of this was estimated to be avoidance – the bulk (HMRC claim) arises from errors in processing,¹⁹ "failure to take reasonable care" and other losses that are, by their nature, hard to capture by the tax authorities but which may improve with greater efficiency in collection.

The named tax rises are focused on those earning more than \$400,000 a year (the top 0.3% of the distribution), in line with Biden's campaign promises. They include equalisation of CGT and incomes tax for gains above \$1m, taxing unrealised capital gains above \$1m at death, and closing numerous smaller real estate tax loopholes.

¹⁸ A useful guide is provided by Reuters (4 April 2021), "Explainer: what is the global minimum tax and how could it affect companies, countries?" At: <https://www.reuters.com/business/what-is-global-minimum-tax-how-could-it-affect-companies-countries-2021-04-14/>

¹⁹ HMRC (9 July 2020), *Measuring Tax Gaps 2020 edition*, Figure 1.7. At: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/907122/Measuring_tax_gaps_2020_edition.pdf

- Proposals to raise the capital gains and dividend tax rates are expected to generate \$342bn over ten years. This appears to be a less ambitious increase (equivalent to £30bn over ten years in the UK) than the £90bn over five years that the IPPR have estimated could be raised over five years from the equalising of capital gains and income tax rates in the UK.
- The top rate of income tax (currently payable at \$518,000 for “Head of Household” taxpayers) is proposed to increase from 37 to 39.6% (the pre-2017 level), forecast to raise \$100bn.

Polling shows very significant support for the proposals, with 64-65% supporting increased taxes on the wealthy and corporations. Again, the party divide is stark: 89-91% support the tax rises, 64% of independent voters, but only 28% of Republicans.²⁰

²⁰ Monmouth University Poll (26 April 2021), “National: broad support for spending plans”, Q13 and Q14. At: https://www.monmouth.edu/polling-institute/documents/monmouthpoll_us_042621.pdf/

Trade policy and “Made in America”

Biden’s trade policy should be seen as forming an integral part of an economic programme to revive the US’ domestic economy and, to claim a commanding position in emerging manufacturing technologies. President Biden and those in his administration have made a number of broad commitments on trade policy prior to him taking office:

- US Trade Representative Katherine Tai has pledged a “worker-centred” trade policy. Biden’s national security advisor, Jake Sullivan, has said this would mean a “laser focus on what improves wages and creates high-paying jobs in the United States, rather than making the world safe for corporate investment”.²¹

The US Office of the Trade Representative (USTRO)’s first major policy statement was the “President’s 2021 Trade Agenda”, published March 2021. This laid out the priorities in trade for the new administration:

- **Pro-worker trade:** “Trade must protect and empower workers, drive wage growth, and lead to better economic outcomes for all Americans... Workers will have a seat at the table as the Biden Administration develops new trade policies that promote equitable economic growth by including strong, enforceable labor standards in trade agreements that protect workers’ rights and increase economic security.” This is a solid rejection of the 1990s “globalisation” agenda which saw workers’ rights and other “special interests” as a subordinate to the general need to promote trade liberalisation, most notably through NAFTA. (Biden himself was a solid supporter of such an approach throughout his time as Senator.)²²
- **Environment and climate change in trade policy:** “The United States will work with other countries, both bilaterally and multilaterally, towards environmental sustainability and raising global climate ambition. As part of the whole-of-government effort, the trade agenda will include the negotiation and implementation of strong environmental standards that are critical to a sustainable climate pathway.” This will include protectionist measures to support “fostering U.S. innovation and production of climate-related technology and promoting resilient renewable energy supply chains.”
- **Racial equality in trade:** “the Biden Administration will seek to better understand the projected impact of proposed trade policies on communities of color and will consider those impacts before pursuing such policies.”

²¹ Davis, B. (24 January 2021), “Biden promises new approach on trade policy”, *Wall Street Journal*. At: <https://www.wsj.com/articles/biden-team-promises-new-look-in-trade-policy-11611484201>

²² Biden voted in favour of the Uruguay Round of global trade talks that established the World Trade Organisation, voted in favour of the Canada-US Free Trade Agreement, NAFTA, and to award Most Favoured Nation status to China.

- **China as a target:** “The Biden Administration is committed to using all available tools to take on the range of China’s unfair trade practices that continue to harm U.S. workers and businesses. It will also make it a top priority to address the widespread human rights abuses of the Chinese government’s forced labor program that targets the Uyghurs and other ethnic and religious minorities.” It will also seek to address “industrial overcapacity” in key sectors including “steel and aluminum to fiber optics, [and] solar”. US Trade Representative Kai has said that Trump-era tariffs on China will continue.²³
- **Digital trade:** “The Administration will work with allies and like-minded trading partners to establish high-standard global rules to govern the digital economy, in line with our shared democratic values.”
- **Global equity:** “The trade agenda will include a review of existing trade programs to evaluate their contribution to equitable economic development, including whether they reduce wage gaps, increase worker unionization, promote safe workplaces, tackle forced labor and exploitative labor conditions, and lead to the economic empowerment of women and underrepresented communities.”²⁴ Trade agreements in recent decades (including NAFTA) have contained labour standards provisions, but these have been weakly enforced. The administration looks set to tighten up these regulations.

It should be noted that in its broad approach, this is a significant continuation of Trump’s trade policy, in seeking to break with the existing multilateral order where this is in America’s perceived interests; protecting and supporting US industry, with a heavy focus on jobs and pay; and explicitly targeting China as a source of “unfair trade practices”.

The primary differences are the introduction of climate and the environment; the commitments to supporting wages and conditions across the world; and the commitment from the Biden administration to “repairing partnerships and alliances” damaged by Trump’s Presidency as a “priority”. But the 1990s/2000s commitments to multilateralism and the rules-based order are very much weakened.

On 25 January, Biden signed the “Made in America” Executive Order, aiming to compel US federal agencies to buy more US-manufactured products. This is a very significant market power: the US government procures around \$600bn annually. The EO builds on two existing statutes, 1933 “Buy American” and 1982 “Buy America”, but mandates the Federal Acquisition Regulatory (FAR) Council to update its guidance for both, claiming this has not be significantly changed since the 1950s. In particular:

²³ Davis, B. and Hayashi, Y. (28 March 2021), “New trade representative says US isn’t ready to lift China tariffs”, *Wall Street Journal*. At: <https://www.wsj.com/articles/new-trade-representative-says-u-s-isnt-ready-to-lift-china-tariffs-11616929200>

²⁴ Office of the US Trade Representative (March 2021), “FACT SHEET: 2021 PRESIDENT’S TRADE AGENDA AND 2020 ANNUAL REPORT”. At: <https://ustr.gov/sites/default/files/files/reports/2021/2021%20Trade%20Agenda/2021%20Trade%20Report%20Fact%20Sheet.pdf>

- The EO tightens the purchasing requirements around “domestic content” for goods produced in the US from different sources. At present, the federal government is supposed to prefer US-made goods, but these need only be 51% US-sourced. The administration is planning to raise this percentage. His election campaign pledged to close “loopholes” that allowed federal agencies to duck out of “Buy America” requirements.²⁵
- Mandates the FAR to report on extending the application of “Made in America Laws” to a greater range of commercial information technology products, currently exempted from coverage.²⁶

²⁵ Biden-Harris campaign site, “The Biden plan to make sure the future is made in all of America by all of America’s workers”. At: <https://joebiden.com/made-in-america/>

²⁶ The White House (25 January 2021), “Executive Order on Ensuring the Future Is Made in All of America by All of America’s Workers”, White House Executive Order. At: <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/25/executive-order-on-ensuring-the-future-is-made-in-all-of-america-by-all-of-americas-workers/>

Criticisms and future prospects

Criticisms of the plan have come in two directions:

Insufficiency

From Democrats and others supporting a more expansive “Green New Deal” investment proposal. Alexandra Ocasio-Cortez and the Sunrise Movement have called for the American Jobs Plan to be raised to \$10tr to provide for comprehensive decarbonisation and job support, of which around 80% should be spent on climate and environmental projects.

- Economic historian Adam Tooze has suggested the current package will fall short of the government’s decarbonisation. Noting that about \$1-1.3tr of the AJP package is devoted to climate measures, he estimates that this gives an annual spend over eight years of about 0.5% of GDP, “far short of any reasonable estimate of the investment needed for decarbonisation”.²⁷
- The Roosevelt Institute has estimated that the US needs to spend at least \$1tr annually, or 3-5% of GDP, over a decade to meet its Paris Agreement targets.²⁸

If these estimates are close to correct, either more will need to be spent by the US government, or the administration will fail to achieve its own international climate goals. The lesser aim, of a decarbonisation of the US energy system by 2035, should be within sight, however.

Excess

From Republicans and economists associated with earlier Democratic administrations, like former US Treasury Secretary Larry Summers, the opposite complaint has been made. Aside from outright ideological opposition to government spending, which some Republican lawmakers and commentators have raised, the more detailed argument from Summers is that (whilst acknowledging some government spending is necessary), the amounts being proposed are too large. They will lead to too much money being pushed into the economy, without the capacity in place to absorb it all, and as a result, inflation will accelerate.

This has been rejected by both the current US Treasury Secretary Janet Yellen and the Federal Reserve Chair Jerome Powell. Yellen, in particular, has spoken in the past of the need to create a (temporarily) “high pressure” economy, in which a large amount of government spending helps support well-paid jobs and overcome the long-lasting “scarring” effects of recessions or (in this

²⁷ Tooze, A. (28 April 2021), “America’s race to net zero”, *New Statesman*.

²⁸ Paul, M., Fremstad, A., Mason, J.W. (June 2019), *Decarbonising the US Economy: pathways to a Green New Deal*, Roosevelt Institute: Washington, D.C. At: https://rooseveltinstitute.org/wp-content/uploads/2020/07/RI_Green-New-Deal_Digital-201906.pdf

case) a pandemic, which could include permanent reductions in its capacity to produce, and long-term unemployment. For example, solid government commitments to offer high-quality training and secure publicly-funded jobs could move people out of long-term unemployment.²⁹ This could happen with the risk of (short-term) higher inflation than previously expected, assumed to be a small price worth paying.

Summers uses standard macroeconomic theory to argue that, since the US economy is growing rapidly as the virus recedes, it will reach its capacity limits more quickly than the Biden administration expect, and therefore start driving up inflation. He cites the Congressional Budget Office as estimating the “output gap” (the gap between actual and potential output) as shrinking from \$50bn at the start of 2020 to \$20bn by its end, as the economy returns to rapid growth.³⁰

In this view, the long-term “scarring” effects of the pandemic are assumed to be limited, scarcely reducing the capacity of the economy, meaning the output gap closes rapidly. This therefore means government spending can rapidly push the economy beyond its full employment point.

Longer term economic prospects

It is too early to decisively say whether the programme is overheating the economy, but early evidence suggests that the effects of the pandemic will be long-lasting:

- The IMF estimate that the global economy will be 3% smaller by 2024 than its pre-pandemic trend, although they believe this will be less serious than the long-run effects of the 2008-9 financial crisis due to a more effective fiscal policy.³¹
- Using data on job characteristics, McKinsey have provided forecasts on those most at risk from longer-term social distancing and accelerated automation arising from the pandemic. They estimate that 17.1m jobs will be lost due to these factors over the next decade, indicating a huge amount of “job churn”.³²

The presence of significant, long-lasting weaknesses in growth and substantial job churn suggests that the US government’s moves to create a “high pressure” economy are leaning in the right direction. In addition, the administration is strongly motivated by a belief that the 2009 response was insufficient (as the IMF also contends).

²⁹ Yellen, J. (14 October 2016), “Macroeconomic research after the crisis”, speech at Federal Reserve Bank of Boston, Boston M.A. At: <https://www.federalreserve.gov/newsevents/speech/yellen20161014a.htm>

³⁰ Summers, L. (4 February 2021), “The Biden stimulus is admirably ambitious. But it brings some big risks, too”, *The Washington Post*. At: <https://www.washingtonpost.com/opinions/2021/02/04/larry-summers-biden-covid-stimulus/>

³¹ IMF (3 March 2021), “Slow-healing scars: the pandemic’s legacy”, IMF blog. At: <https://blogs.imf.org/2021/03/31/slow-healing-scars-the-pandemics-legacy/>

³² McKinsey Global Institute (February 2021), *The Future of Work after Covid-19*, United States country profile.

- Referencing his role as Vice President during the aftermath of the 2008 financial crisis, President Biden remarked to House Democrats in February that “one thing we learned is, you know, we can't do too much here. We can do too little.”³³

Next steps

Both the American Jobs Plan and the American Families Plan need to be passed by both Houses of Congress to become law. The risk of a Senate filibuster blocking some or all of both, with a 60% supermajority required to break it, the deep hostility of the Republican Party, and the fiscal conservatism of a few Democratic Senators has pushed the administration into opening negotiations with the Republican Party.

- The Republicans have presented a \$568bn infrastructure programme as a counter to the American Jobs Act, which forms their side of the negotiations ahead.
- The Democrats have proposed a reduced, \$1.7tr infrastructure plan, accepting \$65bn for broadband instead of \$100bn, and reducing road spending to \$150bn. R&D spend has also been pared back, although with promises to introduce a later, separate Bill to pass spending here.³⁴

Negotiations have so far proved inconclusive, opening the prospect of the administration pursuing the parliamentary device of a “reconciliation bill”, as they did with the American Rescue Plan. This would require only a 51% vote in the Senate, but the content is subject to approval and negotiation with the Parliamentarian, whose office oversees the procedure in the Senate.

- House Democrats are reported to be preparing the process of presenting an infrastructure bill “as early as June 9”, indicating a willingness to use a reconciliation procedure.
- Senate Majority leader Chuck Schumer has indicated that the business of Senate on the economy will continue in the absence of a negotiated agreement, further moving the situation towards an eventual party-lines divide on the two bills.
- The political calculation on the Democratic side is the perception that negotiations with Republicans were not carried in good faith. Biden’s personal popularity, and longstanding record as a bipartisan politician, reduce the presumed negative impact of

³³ Axios (5 February 2021), “Biden after jobs report – ‘We can't do too much here’”. At: <https://www.axios.com/joe-biden-jobs-report-relief-bill-5eb2799c-ba02-4121-8325-965672b991ea.html>

³⁴ Nilsen, E. (21 May 2021), “Biden’s negotiations with Republicans are making some Democrats anxious”, *Vox*. At: <https://www.vox.com/2021/5/21/22446283/biden-negotiation-republicans-american-jobs-plan>

a breakdown. Polling suggests that Americans strongly favour both bills and want to see them implemented, which also reinforces the lean towards a party-lines division.

Main lessons for the UK

Clearly, the read-through from the US Democrats to social democratic and labour parties elsewhere in the world will not be perfect. But the close historic links of the US and the UK make the parallels more exact; and both Democratic and Labour Parties face similar challenges, common across the older industrialised world, of holding together disparate coalitions of support: from solid new bases, often of the young and minorities, in major cities to historic (but weakening) support from often older voters in parts of the country that have historically suffered most from the loss of manufacturing jobs.

For the UK, the outstanding features of the Biden economic programme are:

1. Its construction, deliberately, as an effort in coalition-building across the Democratic Party, stretching from left to centre, and becoming a genuine attempt at creating a popular programme.
2. Its willingness to adopt a quasi-populist language, focused on delivering for workers, and attaching this to large-scale promises of spending and investment across the country.
3. Its willingness to challenge long-standing (if presumed) “truths” in economic policymaking, which includes its promotion of government spending as a potential good in itself, the broadening of the concept of investment to include care expenditures, and raising taxes on the wealthy and corporations.
4. Its willingness to raise taxes on corporations and the wealthy, and to raise revenues from taxes to provide a long-term secure funding stream for increased spending.
5. Its ambitions to steer future trade deals and relationships by the needs of domestic producers, notably in manufacturing, and its willingness to shape those deals and relationships around the delivery of high-quality jobs. For a United Kingdom now outside of the European Union, this point suddenly has a relevance.

Appendix

American Jobs Plan: breakdown of spending (\$bn)

Transport infrastructure and resilience	
Invest in Electric Vehicles (EV), including consumer rebates to purchase EVs, grants and incentives to build 500,000 new charging stations, and replacing and electrifying federal vehicle fleet	137
Modernize bridges, highways, roads, and main streets in critical need of repair	112
Modernize public transit	77
Improve passenger and freight rail service	74
Improve infrastructure resilience by safeguarding critical infrastructure and services, defending vulnerable communities, and maximizing resilience of land and water resources	49
Improve airports	25
Accelerate transformational projects	42
Improve road safety and establish Safe Streets for All program	19
Establish program to reconnect neighborhoods and ensure new projects increase opportunity	24
Improve ports and waterways	17
Other spending	20
Total	596
Renew water infrastructure	
Upgrade and modernize drinking water supplies through grants and low-cost flexible loans to states, Tribes, territories, and disadvantaged communities	56
Replace all lead pipes and service lines	45
Provide funding to monitor PFAS substances in drinking water and invest in rural small water systems & household well & wastewater systems	10
Total	111
Broadband investment	
Total	100
Clean energy tax credits	
Total	400
Decarbonising energy	
Total	98
Build and retrofit 2m homes and commercial buildings	
Build over a million energy efficient housing units and eliminate certain zoning & land use policies	125
Provide funding to improve public housing system	40
Incentivize the building or rehabilitation of over 500,000 homes	20
Establish Clean Energy & Sustainability Accelerator	27
Total	212

Schools & college build and upgrade, new childcare facilities	
Provide direct grants to upgrade and build new public schools, with an additional \$50 billion leveraged through bonds	50
Establish Child Care Growth and Innovation Fund and provide tax credits to encourage businesses to build child care facilities	25
Improve community college facilities and technology	12
Total	137
Veterans' hospitals and federal buildings modernisation	
Modernize VA hospitals and clinics	18
Modernize federal buildings through bipartisan Federal Capital Revolving Fund	9
Total	27
R&D spending	
Additional funding for Historically Black Colleges and Universities research	40
Provide additional funding for climate change research and development	35
Provide additional funding for current programmes	30
Create centers of excellence that serve as research incubators for HBCUs and MSIs	25
Add technology directorate to the National Science Foundation	50
Total	180
Domestic manufacturing support	
Critical Supply Chain Resilience Fund	50
Protect against future pandemics through medical countermeasures	30
Provide funding for semiconductor manufacturing and research	50
Support clean energy manufacturing with federal procurement	48
Additional capital for manufacturers	52
Provide funding for community-based small business incubators and innovation hubs	31
Establish regional innovation hubs and Community Revitalization Fund	18
Expand Manufacturing USA, National Standards Institute, Manufacturing Extension Partnership	14
Investment in rural America	5
Total	298
"Workforce development" (training and skills)	
Provide funding for workforce development infrastructure and worker protection	32
Establish Dislocated Workers Program and invest in sector-based training	34
Provide funding for workforce development in underserved communities	11
Provide funding for enforcement of workforce protections	10
Total	87
Expanding access to quality care	

Expand access to long-term, home and community-based care services under Medicaid and extend the Money Follows the Person program	400
Total	400

Grand total	2,646
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Source: White House (May 2020), "Budget of the US Government", Table S-6. At: https://www.whitehouse.gov/wp-content/uploads/2021/05/budget_fy22.pdf. Committee for a Responsible Federal Budget (2 April 2021), "What's in President Biden's American Jobs Plan?". At: <https://www.crfb.org/blogs/whats-president-bidens-american-jobs-plan>



About PEF

The Progressive Economy Forum (PEF) was founded and launched in May 2018. It brings together a Council of distinguished economists and academics to develop a progressive and sustainable macroeconomic programme and to foster wider public engagement with economics. It opposes and seeks to replace the current dominant economic narrative based on austerity.

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