

USA: Biden Releases “American Rescue Plan”; Increasing Our Fiscal Stimulus Estimate to \$1.1 Trillion

BOTTOM LINE: President-elect Biden has released the details of his COVID-relief plan, which the transition team estimates to cost \$1.9 trillion (8.6% of GDP). We do not expect all of the elements of the proposal to pass, but we are increasing our assumption of additional near-term fiscal measures from \$750bn (3.4% of GDP) to \$1.1 trillion (5% of GDP). We expect to make modest further upward revisions to our forecast in light of these revised assumptions.

MAIN POINTS:

1. President-elect Biden is proposing \$1.9 trillion in new fiscal relief measures, in addition to the roughly \$950bn Congress approved in December 2020.

He has proposed substantial spending in all of the areas we expected, including an additional \$1,400/person in stimulus payments, further extension of expanded unemployment benefits (through September 2021 and including a \$400/week top-up payment), state fiscal aid (\$370bn in direct aid plus a number of indirect measures), and public health funding (\$190bn). He has also proposed \$170bn in new funds for schools to respond to COVID-19, expansion of the child tax credit and earned income tax credit (we expect these would cost around \$150bn), and extension of health insurance premium subsidies (the cost is unclear but could be similar to the roughly \$100bn cost of the May 2020 House Democratic proposal).

2. The proposal faces hurdles in Congress. Biden transition officials and congressional Democrats have indicated they hope to pass this proposal via regular order, not the budget reconciliation process. This means that it would need 60 votes in the Senate, and therefore the support of at least 10 Republicans. We do not expect ten Republicans to support a \$1.9 trillion relief package. While Democratic leaders might use the budget reconciliation process to circumvent potential Republican opposition, there are two arguments against doing this. First, recent political events put a greater premium on finding areas of bipartisan support, if possible. Second, the reconciliation process has never been used before to pass discretionary spending, and it appears that around half of the proposal—state fiscal aid, education grants, public health spending, to name a few areas—falls into this category. While it is possible that congressional Democrats might find a way to do this, it looks more likely that the need to find bipartisan support might constrain the size of the package.

3. Nevertheless, we are increasing our fiscal assumptions and now assume that Congress will enact \$1.1 trillion (5% of GDP) in additional fiscal support.

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As shown in the table below, around half of the difference reflects an assumption of greater spending on education and public health. Most of the remaining difference relates to various safety net programs and unemployment insurance.

4. Most of the incremental spending we now expect is likely to take slightly longer to reach the economy than the amounts we previously assumed.

Last month Congress approved \$82bn in education grants and \$69bn in public health funding, and those funds look likely to be used first before any additional funds are spent. Moreover, spending in some of these categories is likely to be driven by the need for spending—on vaccinations or testing, for example—rather than simply the amount of funding available. We expect to make modest further upward revisions to our forecast in light of these revised assumptions.

5. We continue to expect passage between mid-February and mid-March, but the timing depends on several factors.

Specifically, the potential impeachment trial in the Senate could consume much of the calendar over the next few weeks, as could presidential nominations. Timing also depends on whether Democrats ultimately fall back on the reconciliation process, which would require multiple legislative steps, or pass the bill under regular order, which could be quicker but depends on how long it takes to negotiate an agreement.

6. This is likely to be the first of two major proposals. As we recently outlined, we expect a second proposal dealing with taxes, infrastructure, and benefit programs to pass around mid-year. President-elect Biden looks likely to outline this second proposal in a few weeks, potentially around the time the White House submits a preliminary annual budget proposal to Congress.

Alec Phillips

Exhibit 1: Coronavirus Relief and Fiscal Stimulus Proposals

	"Phase IV" Proposals				"Phase V" Proposals		
	House Democrats (May 2020) "Phase IV"	House Democrats (Oct. 2020) "Phase IV"	Bipartisan Proposal (Dec. 2020)	Enacted COVID-Relief Bill (Dec. 2020) "Phase IV"	Biden Proposal (Jan. 14, 2020)	GS Est., Prior Assumption	GS Est., New Assumption
State fiscal aid	996	492	160	0	370	200	200
Education grants	90	225	82	82	170		100
Public health	197	198	51	69	160	50	100
Stimulus payments, child tax credit	584	360	-	171	450	300	300
Unemployment insurance	440	390	180	180	200	150	200
Rental/homeowner assistance	200	89	25	25	35		25
Child care	10	65	10	10	40		25
Safety net programs	40	26	13	13	20		25
Health insurance	99	10	-	-	100		
Business assistance, incl. restaurants	268	408	300	350	50		50
Student loan relief	192	44	4	-			
Pension relief	53	59	-	-			
Transportation	31	48	29	29	20		25
Air carriers		27	16	16			
Broadband	6	15	10	7			
Farm subsidies			13	13			
Eliminate SALT limitation for 2020	137	65	-				
Reverse CARES tax loss provisions	-254	-254	-				
Other	356	131	15		285	50	50
Total cost (\$bn/10yrs)	3445	2398	908**	~950	1900	750	1100
Total cost (% of 2020 GDP)	16.5	11.5	4.3	4.5	8.6	3.4	5.0

Source: Congressional Budget Office, Joint Committee on Taxation, Treasury, Goldman Sachs Global Investment Research

Disclosure Appendix

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