

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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A Biden Presidency: Ten Major Challenges

So now the work begins for President-elect Joe Biden to reconstruct and rehabilitate an American landscape that seems strewn with political and economic scars. There's little he can do between now and January 20th, of course, but the challenges ahead are daunting. Let's run through ten major policy issues the Biden – Harris team will face on Day 1.

1. Controlling and managing the coronavirus tops the list. Biden won the presidential race just as the daily infection rate hit its apex in the US. And he is well aware that no economic recovery is possible until we defeat this deadly threat to public health. Pfizer's exciting news this morning of a vaccine that is shown to be 90% effective in preventing Covid-19 infections gets us closer to that goal. But let's keep in mind this is a preliminary report, albeit a promising one. By the end of the year, we should have more conclusive data on its efficacy and safety. At this moment, there are still far more questions than answers. One top epidemiologist at Johns Hopkins believes Covid-19 could ultimately transition to an endemic. That means this virus can return every winter, each time with a slightly different strain much like the flu does. That would require an updated vaccination annually. So while the news from Pfizer is hopeful, we have to guard ourselves against any sentiment of "mission accomplished."

2. Reviving the economy will also call for innovative thinking. What the Federal Reserve has done so far has been helpful, but it's mostly palliative. Maintaining a zero-bound interest rate policy keeps borrowing costs down and eases debt service burdens. The ongoing Fed purchases of treasury notes and

bonds are also designed to keep the cost of capital down. Kudos, too, to the Fed and the Treasury for working together on establishing numerous lending facilities to keep credit flowing in the public and private sectors. While all these programs can soothe some economic pain, they do not stop the financial hemorrhaging still underway among businesses and households. Simply put, the Fed does not have the tools to fully offset the damage done from a catastrophic exogenous shock. For that we have to rely on Congress to pass another major emergency stimulus program. The longer it takes for the House and Senate to act, the greater the tear in the economic fabric of the country. Wait too long --- or pass a plan that's too anemic--- and you risk an even larger graveyard of bankrupt companies and more structural unemployment.

3. The refusal of the Trump administration to ever take global warming seriously has sped up the timeline of when damage to the planet becomes irreversible. Biden will have no real choice but to act more assertively to wean the nation off fossil fuels and rely more quickly on renewable energy and sustainability. Last year was the second warmest on record and its impact on the planet has been shockingly destructive. Just look at record number of wildfires and severe hurricanes that have dislocated American lives and damaged the economy. Another eye-opener is what glaciologists observed in Greenland. This island, the largest in the world with a body of ice more than three times the size of Texas, lost a record 1 million tons of ice *per minute!* in 2019, creating enough water to place all of California under four feet of water. Biden has pledged to move quickly once in the White House, either with the support of Congress or through executive action.

4. The Democratic Party is now the most diverse in modern history--- ethnically, racially, politically, religiously and in terms of sexual orientation. It was easy keeping this disparate group together in their singular mission to prevent Trump from winning a second term. With that goal now accomplished, it will be interesting to see if Joe Biden and Kamala Harris can keep this amalgam unified in the months and years ahead. If so, the Democratic Party will be a powerful force in Congress. Should infighting erupt between centrists and progressives, however, it will greatly lessen the Party's clout. That could undermine Biden's own policy agenda, especially if the GOP retains control of the Senate.

5. What to do about the exploding US budget deficits? Both parties know the pace of government borrowing is unsustainable. There is a palpable fear the country is now losing control over its finances. Doing nothing runs the risk of sleep walking into a major financial crisis in the future. On the other hand, Democrats know the coronavirus has pulverized the US and international economy. So long as the pandemic poses a mortal threat to the nation, spending too much is better than spending too little. It's the lesser of two evils at this point in time. We know Biden does have plans to raise taxes on corporate profits and on

individuals making more than \$400,000 a year. The question is what's the best timing. Our expectation is that Biden will announce a social pact where Americans will have to be prepared to pay higher taxes once the economy gets back on its feet. Of course, much depends on whether the GOP will retain control of the Senate, and we won't know the answer to that until early next year after the run-offs in Georgia.

6. Can anything be done to redress the ideological imbalance on the Supreme Court? The assumption of Amy Coney Barrett to the nation's highest judicial body will produce a 6 to 3 conservative majority. (It stood at 5 to 4 before Ruth Bader Ginsburg's death.) An overwhelmingly conservative Court will be problematic for the President-elect. For one, the Court may kill the Affordable Care Act, and possibly overturn landmark cases of *Roe vs. Wade* and *Obergefell vs. Hodges*. Second, once Biden becomes President, he is likely to rush through several executive orders designed to reverse Trump's directives on immigration, border wall funding and on weakening environmental protection. Other than to expand the Supreme Court beyond its nine justices, there is little Biden can do until another vacancy occurs. Biden said he would appoint a bi-partisan commission that would explore the feasibility of reforming the Supreme Court. But, frankly, we just do not see any major changes forthcoming.

7. What will Biden do about the \$370 billion worth of tariffs Trump imposed on Chinese goods entering the US? We know the President-elect is not an enthusiast for using tariffs or other trade barriers as a geopolitical weapon. Yet, he and the Democratic Party do not want China off the hook that easily, especially given its malevolent behavior in international trade. It's a thorny issue for the next Administration. But the fact remains it is US importers and ultimately consumers that are paying these tariffs, not China as Trump keeps repeating.

8. Once Biden takes office he will immediately confront a slew of geopolitical storms, such as rising tensions in the South China Sea and China's growing threats against Taiwan. Other high-risk hot spots that will demand attention include Iran, North Korea, border skirmishes between China and India, Russia's growing influence in Venezuela, and the military conflict between Armenia and Azerbaijan, which indirectly pits a NATO country (Turkey) against Russia.

9. Another high priority for the next Administration is to re-engage with our traditional allies across the Atlantic and parts of Asia. President Trump's near fetish embrace of nationalism, his zero-sum game approach to foreign trade, a reach for autarky and disdain for international organizations have alienated America's foreign partners. Biden's foreign policy team will convey to the international community that US policies the last four years were largely an aberration. We expect to see the US join the Paris Climate Accord and reconnect with the WHO and WTO.

GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
US	2.6	1.6	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-2.8	3.4	3.9
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-8.8	3.5	2.5
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.5	-10.3	4.6	3.9
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	2.2	0.3	0.7	-5.2	2.4	3.2
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-5.8	5.4	3.4
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.8	-8.8	9.9	6.4
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	2.1	7.4	6.2
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-6.0	2.9	2.7
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-9.6	3.3	2.8
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-3.9	3.5	3.8
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.2	-4.9	2.9	3.3
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.9	-3.8	4.7	4.2

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