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The American Rescue Plan: A First Look at the Biden Administration's Fiscal Priorities

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The Biden Administration unveiled the American Rescue Plan, a package of payments, tax credits, benefit increases and extensions, grants, loans and other types of funding support intended to keep the U.S. economy afloat by limiting the economic fallout from the COVID-19 pandemic. Many of the Rescue Plan's programs are targeted to last through the summer, providing enough time for vaccinations to begin a return to more normal conditions.

The price tag, at $1.9 trillion, would make the Rescue Plan the second-largest stimulus package in U.S. history after the CARES Act of early 2020, and it equals 9% of annualized gross domestic product (GDP), as measured for the third quarter of 2020. All told, the Rescue Plan would appropriate more than $1 trillion for direct financial relief to Americans.

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Direct Payments	› $1,400 payments to qualifying American adults and dependents based on income thresholds
Unemployment Benefits	› Increase federal supplemental compensation to state-level payments from $300 per week to $400 › Extend benefits through September 2021 from the current mid-March expiration date
Housing Relief	› $30 billion in funding for rent, energy and water assistance › Extend a moratorium on evictions and foreclosures, as well as forbearance for government-backed mortgages, through September 2021 (currently set to expire in March)
Child Tax Credit	› Increase to a maximum $3,600 for children up to age 5, $3,000 for children ages 6 through 17, and fully refundable even if an American's tax burden is less than the credit › This is higher than the existing $2,000 per dependent through age 16, and up to $1,400 refundable
Earned Income Tax Credit	› Raise maximum credit for adults without children to $1,500 with a higher income limit of roughly $21,000 › This is up from $530 and $16,000, respectively
Child and Dependent Care Tax Credit	› Expand to cover as much as 50% of childcare expenses up to $4,000 per child, with a maximum credit of $8,000 › Fully accessible and refundable for families earning up to $125,000, and fully phased out at $400,000 › This is up from 35% of expenses up to $3,000 per child, with a maximum credit of $6,000
Small Business Funding	› $15 billion in grants › $35 billion as leverage toward $175 billion in community-sponsored small business loans

The American Rescue Plan: A First Look at the Biden Administration's Fiscal Priorities (continued)	
State and Local Funding	› $350 billion for state and local governments › $20 billion for tribal governments › $20 billion for public transportation
Health Funding	› $160 billion for COVID-19 vaccine distribution, testing and supplies › Extends subsidized health coverage through September 2021 for Americans that have lost employer-based coverage › Increase the premium tax credit for health insurance exchanges to limit costs to a maximum 8.5% of income
Education Funding	› $170 billion toward the re-opening of schools and funding for post-high school education › $25 billion directed toward childcare providers
Paid Leave	› Those impacted by COVID-19—either unable to work due to a quarantine requirement, caring for family members, or caring for children in the event of a daycare or school closure—would be eligible for a weekly benefit of up to $1,400 through September 2021 › This benefit would be coupled with a 100% refundable tax credit to offset the cost of paid leave for businesses with less than 500 employees
Nutrition Support	› Extend a 15% increase in the Supplemental Nutrition Assistance Program through September 2021 › $3 billion in funding for the Special Supplemental Nutrition Program for Women, Infants, and Children › $1 billion in funding for the Temporary Assistance for Needy Families program

Sources: BuildBackBetter.gov and Tax Foundation

The Paths to Passage

Unity, an increasingly scarce commodity in Washington, DC, has been earning some attention in recent weeks, and Biden has stressed that he'll seek bi-partisan buy-in to all of his plans. Ten Republican senators would need to approve the Rescue Plan, assuming the entire Democratic caucus also voted in favor, to hit the 60-vote threshold for regular legislation to pass through the U.S. Senate. This 60-vote threshold is a product of the filibuster, which is a debate procedure that enables Senators to indefinitely delay the consideration of a law.

If 60 votes are unattainable, Democrats can use the reconciliation process in the Senate to pass legislation with a simple majority. Reconciliation measures are limited to budget-related legislation, meaning they must change the level of spending, revenues or the debt limit. Furthermore, each of these three budget categories may only be considered via reconciliation once per fiscal year.

Budget reconciliation measures follow an expedited path that caps Senate debate time at 20 hours and limits the types of amendments that can be introduced[1]. If no Republications vote in favor of the legislation, Democrats would need to vote as a bloc, and Vice President Harris—as President of the Senate—would cast the deciding vote in the event of a 50-50 tie.

In summary, Democrats can use a reconciliation measure to enact the Rescue Plan's spending and revenue changes with their slim Congressional majority. And while this package is the new administration's top priority, the reconciliation path is complicated from a procedural standpoint, so it may run up against the current March-end expiration for several of the underlying programs.

[1] "The Budget Reconciliation Process: The Senate's 'Byrd Rule.'" Congressional Research Service. December 2020.

Rebalancing the Economy: The Longer-Term Economic Recovery Plan

Looking beyond COVID-19, the Biden Administration's Economic Recovery Plan centers on a handful of potential growth drivers that it plans to target for investment. We expect the first substantive details of this plan to be available in late February to coincide with the President's address to a joint session of the U.S. Congress.

At a high level, the plan can be expected to prioritize U.S. manufacturing and supply chains, along with the innovative roles played by small businesses and technology; infrastructure modernization, with a dedicated focus on clean energy investments; and caregiving and education, particularly to ease the burdens on working parents.

All of these investments in the real economy are expected to have a huge price tag—the Biden campaign's infrastructure plans cost $2 trillion alone—and while they can be expected to produce a return on investment over time, they will leave a large fiscal hole in the shorter term.

The need to offset these investments with higher revenues means that taxpayers at the high end of the income scale can expect their federal tax bills to increase. We don't yet have a detailed look at the new administration's plans for the tax code, but the Biden campaign stuck to a few key points that can help shape expectations:

- Repealing the $10,000 cap on state and local (SALT) tax deductions is a priority.
- Tax credits will prioritize "retirement savings, child care and first-time home purchases." [2]
- Plans to fund programs rely on increasing taxes for corporations and households with annual income above $400,000.
- Capital-gains taxes would increase for households with income over $1 million.

[2] "Where Trump and Biden Stand on Tax Policy." The Wall Street Journal. September 17, 2020.

SEI's View

Stubbornly high unemployment levels as a result of the pandemic require fiscal action if we're going to avert financial devastation in households across the country. Yes, it would be preferable to have a full-fledged economic re-opening that sidesteps the need for more government outlays, but the U.S. population probably won't be broadly vaccinated until the fall or early winter. Consumer spending has remained quite robust aside from "go out" entertainment and leisure businesses, and we suspect there will be a great deal of pent-up demand unleashed once we reach sufficient vaccination levels. We may well experience a scenario where the Rescue Plan bridges the final gap until the fall, followed by a strong economic rebound heading into year end.

Should the Rescue Plan be smaller and better targeted at those that truly need help? Quite possibly, especially if we want to prioritize a measure of fiscal restraint. The U.S. dollar has been on a one-way trip lower (versus a trade-weighted basket of foreign currencies) since the CARES Act's passage last March, and prospects for unrestrained spending will virtually guarantee that the dollar continues on this path. There are benefits and drawbacks to a weaker dollar—it could be beneficial from an economic growth standpoint but would also mean higher prices for imported products.

Short term, from an investment standpoint, an appropriation equal to 9% of GDP should flow through to asset prices, potentially providing a large tailwind to a broad reflationary theme. Reflation occurs when inflation rises from a below-average level back toward its long-term trend. We typically view reflationary periods as economic environments where both growth and inflation are accelerating.

Looking at the longer-term Economic Recovery Plan, there are undoubtedly aspects of U.S. infrastructure that are overdue for attention. The U.S. Chamber of Commerce will be hitting the airwaves to promote a bi-partisan infrastructure deal that will likely have a 13-figure price tag[3]. This implies that a cost-benefit analysis of the leading infrastructure proposals has produced a green light insofar as the interests of U.S. business are concerned.

Time will tell whether the Biden Administration's ambitious spending plans rise to meet today's challenges, or if they create greater challenges down the road. Both U.S. political parties have presided over large federal budget deficits since the 1970s, but Republicans have historically been more adamant about fiscal restraint when out of power and will likely revert to that view.

[3] See the "Job One" Campaign of the U.S. Chamber of Commerce and Bipartisan Policy Center

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