Biden's First 100 Days

Not Your Average Joe

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President Joe Biden was sworn into office January 20th – and he hit the ground running, signing nearly 20 executive orders that in most cases reverse the previous administration's policies on a wide range of issues including immigration (halting border wall construction, reversing immigration bans), climate change (re-entering the Paris Climate Accord), and public health (mandatory mask wearing in some public spaces).

His number one priority will be passing the previously-announced $1.9 trillion coronavirus stimulus plan (the 'America Rescue Plan') but getting that package through in its entirety is hardly guaranteed; legislative numbers required for approval aren't a given and procedural limitations could make the path forward quite difficult.

The focus on the coronavirus stimulus package will likely backburner other issues for now – such as foreign policy & international trade, where we broadly expect (with some key differences) a return to Obama-style multilateralism. But as we've already seen, executive order does give Biden some leeway to make key changes immediately.

Coronavirus Relief is Step One, Priority One

The Biden administration will pursue fiscal stimulus in two distinct bills. The first, which Biden outlined in a speech in early January, is the $1.9 trillion America Rescue Plan aimed squarely at coronavirus relief. He plans to outline a second-step stimulus bill, the Build Back Better Recovery Plan, at the State of the Union address in February.

We think market participants should be fully focused on the America Rescue Plan – the Build Back Better Recovery Plan will likely receive significant attention due to its probable inclusions of corporate tax increases as a source of funding, but that plan may face an even steeper uphill battle than the former. For now, we think all effort will be on the more narrowly tailored coronavirus relief package.

Biden's Covid-19 Response Plan – America Rescue Plan

Provision	Deficit Impact
Provide $1,400 per person "Recovery Rebates" on top of the $600 already issued	$465 billion
Provide aid to state and local governments	$350 billion
Increase Unemployment Insurance supplement to $400/week and extend emergency UI provisions through September	~$350 billion
Provide funding for a national vaccination program, testing, and other COVID containment efforts	$160 billion
Fund school reopening and increase funding to schools and colleges	$170 billion
Expand the Child Tax Credit to a refundable $3,000 per child, $3,600 for children under 6 (assuming one year)	~$120 billion
Provide rental and small landlord support	$30 billion
Provide support to childcare providers	$25 billion
Other policy changes	~$200 billion
Total Reported Cost	**$1.9 trillion**

Sources: Committee for a Responsible Federal Budget, NatWest Markets

Two Paths for Passage – Regular Order Likely to be Quickly Scrapped

Any stimulus package would require approval from both the House and Senate. The combination of a relatively large House majority for Democrats and the requirement for only a simple majority should provide smooth sailing for Biden's priorities through the US House (though there are some risks here too – should the package get too small for progressive pockets of the party).

Senate approval will likely be a tougher challenge, due to the Democrats slim majority as well as the presence of the filibuster, a rule that allows Senators to delay a vote by extending debate – which could effectively stall legislation indefinitely.

If several Republicans do mount a filibuster threat to the bill, the Biden administration has two options:

- The first is to simply attempt to pass the stimulus plan via 'regular order' (the usual processes & procedures governing debate and approval of legislation). That would require buy in from at least 10 Republican Senators to break their GOP colleagues' filibuster, an outcome we see as highly unlikely.
- The second option would be to use 'budget reconciliation' (which would not have been an available option had the Democrats not won control of the Senate in January).

Budget reconciliation is among the most consequential loopholes in law-making because it allows for major legislation to be passed without the threat of a filibuster (more on this in the table below, and for a deeper dive, Appendix A). That benefit comes at some cost, though – the process is more limited, and would take more time, than a bill that can win approval in regular order.

Democrats have strongly signalled a willingness to use reconciliation to get one, or both, of their stimulus plans over the line if they are stonewalled in regular order, and we expect Democrats to eventually head down this road (the prospect for 10 Republican Senators backing Biden's stimulus push is unlikely).

Regular Order vs. Budget Reconciliation – The Basics

	Regular Order	Budget Reconciliation
House Approval	Simple Majority	Simple Majority
Senate Approval	Filibuster-proof majority (60)*	Simple Majority (50 + VP tiebreaker)
Scope	Unlimited	Only include line items that directly impact spending, revenues, or debt limit
Special Pre-requisites	None	Budget Resolution with reconciliation instructions
How Often?	Unlimited	Only one budget per fiscal year
Deficit Limits	None	Must not exceed reconciliation instructions within 10 years and no budget impact outside of a 10-year window. Scoring done by non-partisan Congressional Budget Office

Source: Committee for a Responsible Federal Budget, Tax Policy Center, Tax Foundation, NatWest Markets

*Technically a simple majority is needed to pass legislation, but to end debate and go to a vote at all a filibuster threat would need to be broken with 60 votes. So, in practice, 60 votes are needed if we assume at least one Republican would filibuster.

The Holdup? Legislative math

United government alone increases the prospect of fiscal stimulus, given it has opened the door to using budget reconciliation. But getting fiscal stimulus out the door may take longer (and it be smaller in size) than many believe.

Assuming regular order is quickly scuttled in favour of reconciliation, Democrats will need unanimous Democratic support (due to their extremely slim 50/ 50 +1 "majority") as we would be surprised if even one Senate Republican considered voting in support of a reconciliation bill (a process generally used to stop the minority party from participating in the legislative process).

More consequentially, several centrist Democrats may also take some convincing, according to reports from the Washington Post. Just one dissention among the Democratic Senate ranks is enough to delay, if not outright halt, the process. That said, one piece of leverage the Biden administration will likely hold is pressure. Suggesting casually that you may not support key components of Biden's stimulus package in a press interview is easy. But voting against your own party's landmark stimulus package, amid a new wave of cases, is another matter – which could ultimately pull centrist lawmakers to Biden's side.

The pressure to pass a major long-term bill is unlikely to be as high as the short-term pressure to support emergency Covid-19 relief, especially given that it would likely include corporate tax increases and some squarely Democratic priorities. This could also create a balancing act for Democrats in crafting the final text of the first plan: add too much (and skew too far from Covid-19 relief) and you risk alienating conservative Democratic Senators.

No hard deadline for stimulus – but March 14 is a major soft deadline

The Biden stimulus plan seeks to increase and extend supplemental unemployment benefits, but a failure to get something done by mid-March will result in a lapse of current benefits.

Under the $900bn stimulus package passed at the end of 2020, Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation were each extended through March 14, 2021. We do not believe the stimulus push has a true "hard" deadline outside of the November 2022 midterm elections. But mid-March expiration of key provisions for unemployed workers is a critical soft deadline.

In the end, we do think some additional stimulus will get passed, even if it's less clear how we get there. Our size estimate at the time of writing is ~$1-1.5tn, but with risks on both sides. While we expect the figure to be negotiated down in the first package, a slower than anticipated Q1 in the US and an increase in virus cases and deaths should add pressure on lawmakers to get the package closer to Biden's total. However as noted above, there are plenty of opportunities for the bill to not only get delayed, but potentially derailed if the package gets too big for more conservative Democratic lawmakers.

Foreign policy – a return to multilateralism

On the foreign policy front, we expect an ongoing strong US stance against China in the medium-term as he seeks to build a consensus amongst allies.

On the flip side, while not necessarily an executive order per se, we expect to see a lot of positive headlines regarding Europe (like those seen after the US rejoined the Paris Climate Agreement): reaffirming commitment to NATO, potentially cooperating regarding Iran once again, and the like.

Lastly, we expect Biden to loosen immigration and visa policies, which may aid labour supply, as per above.

Trade policy – America (Coronavirus-Relief) First

We think the desire to quickly pass coronavirus relief is likely to relegate international trade issues to the backburner – at least for the near-term (his own version of "America First").

More broadly, we believe President Biden would pursue a return towards Obama-era multilateralism and strengthen security and economic alliances with the country's democratic partners. The looming threat of sudden trade escalation against the European Union, Canada and Mexico is likely to end under the Biden administration – though he is not exactly calling for a push towards a free-trade utopia.

Biden's Expected Geopolitical Stance: Summary

	Expected Trade / Foreign Policy Stance under Biden
China	• Predictable, principled, but still tough stance on trade • May leave Phase 1 deal / May be open to removing Trump tariffs • Pursue "Carbon tax / quota", which may mean new tariffs
Euro-area	• Trade war / auto tariff risk ends • May be open to more cooperation on global taxes • Work with EU to re-enter / rework Iran Deal
UK	• Free trade negotiations stall as new admin brings new priorities / leaders (USTR) • UK "Back of the Queue" on trade? Pivot to EU • UK and US may gain trade pact if both join TPP
CEEMEA	• New sanction risk for Russia on electoral interference • Support for Israel but more critical of Israeli policies
Latin America	• Less confrontational border policy with Mexico • Climate focus may have negative implications for commodity producers • May reduce Venezuela economic sanctions • Effort to rejoin the Trans-Pacific Partnership (TPP) may benefit signatories Chile, Mexico, Canada

Source: NatWest Markets

China – predictable, principled, but still tough

We think Biden's approach on China will be stylistically different than Trump's, though it may not be significantly "easier" from a trade and economic perspective. We do think a Biden approach – one that seeks to leverage US allies to add pressure on China – would be more consistent with principles espoused under President Obama, and unlikely to change at the drop of a tweet.

Biden's past criticism of Trump's tariffs on Chinese goods suggests that he would be open to removing the tariffs put in place under the Trump administration, but the Biden camp has been cagey about the prospect of doing so. His desire to link economic activity with climate targets suggests a new potential realm of economic tension between the US and China.

Europe and the UK – hitting the reset button

Europe – auto-tariff risk gone
Biden's views on US-EU trade were not well specified on the campaign trail or in the months since his electoral victory. But his overarching goal of restoring American partnership with the country's democratic allies implies a shift toward a more cooperative relationship with the EU and NATO (Biden also criticized Trump's tariffs taken in the name of national security against the EU and Canada), so we think the risk of tariffs on European autos is essentially gone.

One specific issue we are tracking between the US and the EU relates to digital services taxes. Pre-election, we felt the Biden administration may prove more open to international cooperation in corporate taxes, specifically related to digital services, certainly more so than the Trump administration. But recent comments from Treasury Secretary Nominee Yellen that the US would try and stop foreign countries from taxing US companies unfairly has thrown cold water on that.

UK – new management, new priorities
Like US-EU trade objectives, Biden's US-UK trade objectives are not particularly well specified. Prior to the year-end Brexit deal, we felt the uncertain relationship between the EU and the UK stood in the way of major progress on a US-UK free trade deal.

With the Trump administration now out, and a skinny FTA not yet complete between the US and the UK, we fear that the process or formalizing the US-UK relationship in the post-Brexit world may effectively need to start over. Politico reported in December that an agreement on some key provisions had been found, though a new administration may bring with it a fresh set of priorities, particularly on reported sticking points between the Trump administration and the UK (agriculture, financial services, and pharmaceuticals).

There is also the risk that the Biden administration moves away from a bilateral UK-US deal and in a more multilateral direction with the UK: both the Biden campaign and the UK government have expressed interest in rejoining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (also known as CPTPP, or simply TPP).

Appendix A | Budget Reconciliation Basics

Budget reconciliation is both complex and archaic. Unlike "regular order", under which laws are intended to be passed, the budget reconciliation process is subject to strict (but workable) limitations. The budget reconciliation process requires a budget resolution, of which there can only be one per fiscal year. The Biden administration could use other FY budgets to use reconciliation instructions multiple times in the same calendar year. Recall that the Trump administration attempted to use one budget to repeal and replace the ACA in 2017 and then followed with a second budget with reconciliation instructions for tax cuts within the same calendar year.

A full discussion of the budget reconciliation process can be found here. In simple terms, the budget resolution is needed because it provides budget committees with instructions to adjust federal spending / revenues to meet with the targets in the budget. These are called reconciliation instructions, and the overall size of reconciliation instructions will be instrumental in the final size of the any stimulus bill, as the deficit impact within 10yr cannot exceed that amount. A budget with reconciliation instructions to increase the deficit by $1tn provides less spending authority than a resolution with instructions to increase the deficit by $2tn.

There are also limitations on what can and cannot be included in reconciliation. Budget reconciliation matters must at least be related to the budget – specifically, relate to either spending, revenues, the debt limit, or all three. We do not expect this to be binding in the case of the Biden stimulus package, as the announced package has few (if any) items which are unrelated to spending or revenues. But specific provisions of the final package could be challenged on these grounds should they stray too far from direct budgetary implications.

Finally, the Byrd Rule forces any measure passed through reconciliation to have no impact on the deficit (or, at least, to not increase the deficit) outside of a 10yr horizon. This was a major hang-up in the 2017 tax cut process because a permanent tax cut will undoubtedly have an impact on the deficit in years 11 and beyond. The workaround in that case was that a significant portion of Trump's tax cuts were not permanent, and many provisions will begin rolling off starting in 2022 (which is going to be a major point of legislation contention down the road, but beyond the scope of this note)

Because budget reconciliation considers deficit impact and not strictly debt impact, we currently believe that plenty of stimulus planned by Democrats is unlikely to be subject to Byrd Rule limitations. The deficit impact of a one-time stimulus check, for example, will be fully felt in the year it is delivered and may not be scored to have a deficit impact beyond that 10yr window. Much will depend on the scoring of the Congressional Budget Office (CBO), including the economic forecasts under which assumptions are made.