

# Research Briefing | US

## How Bidenomics could boost the economy

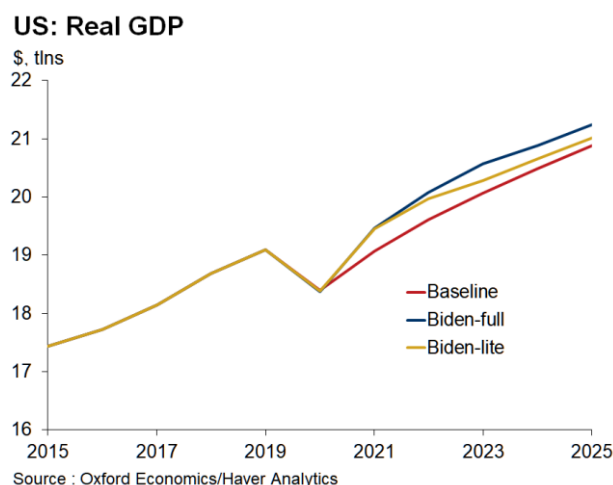
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- Joe Biden’s fiscal policy proposals would provide the US economy with a booster shot as it recovers from the Global Coronavirus Recession. While his \$4tn tax increase proposal and his \$7tn spending blueprint wouldn’t pass the Senate, we recalibrated a “Biden-lite” proposal that could. We estimate such a compromise package would boost GDP growth by 2.1ppt to 5.8% in 2021, allowing the economy to regain its Covid-related output loss by mid-2021.
- By the end of Biden’s four-year term, nominal disposable income would be 2% higher than in our baseline, while the economy would count 2 million more jobs, and the unemployment rate would approach 3%.
- On a static basis, the Biden-lite blueprint would increase the unified budget deficit by \$400bn during a first term. However, incorporating the boost to growth from additional government infrastructure, education, and health care spending, the budget deficit would rise by only 0.2% of GDP. Moreover, given that 85% of the tax burden would fall on the top 5% of earners (incomes above \$350,000), the hit to consumer spending would be limited.
- With inflation only gradually moving toward 2%, the Fed would favor a dovish stance through 2022. Thereafter, as inflation sustainably surpasses 2% and unemployment falls below 4%, we would anticipate a rate hike in late 2023. Stronger growth expectations and higher short-term rates would lift the 10-year Treasury yield, but it would remain below 2.5% through 2023. As such, we anticipate minimal crowding out of private sector investment, and interest payments on the debt would decrease from 2.7% of GDP today to 2.6% in 2024.
- The equation files used to run the Biden-lite and “full-Biden” scenarios are available to clients upon request. In a forthcoming note, we’ll contrast Biden’s and Trump’s trade, immigration, climate, and minimum wage proposals.

**Figure 1: A welcome boost to growth**

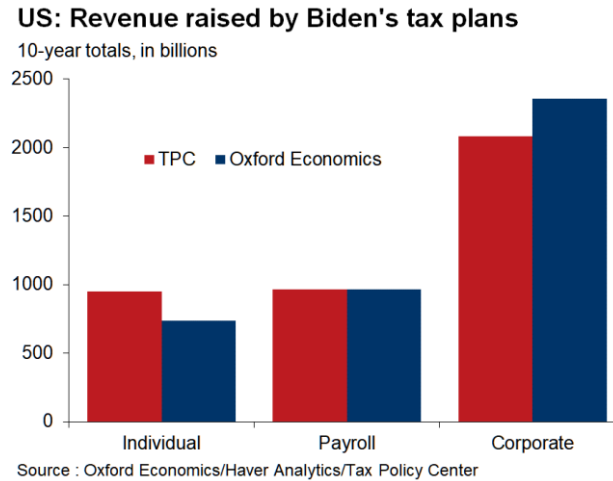


Under our Biden-lite scenario, the US economy would grow 5.8% in 2021, compared with 3.7% in the baseline. The economy would count 2 million more jobs by the end of Biden’s first term, with the unemployment rate at 3%.

**Biden has proposed tax increases of \$4tn**

**Figure 2: Tax hikes by type in the Biden plan**

We estimate that Biden’s tax proposals would raise \$4tn over 10 years, before accounting for any macroeconomic effects. Increased corporate tax revenues would raise more than half the total, or \$2.4tn. An increase in Social Security payroll taxes on earnings above \$400,000 would raise \$960bn, and other individual tax changes would net a tax hike of \$740bn.



We’ve adjusted Tax Policy Center estimates of Biden’s tax hikes to reflect our assumptions about sunset tax provisions and some additional tax breaks.

The starting points for our analysis of Biden’s tax proposals – and for constructing a compromise scenario – are the estimates of the revenue impact by the [Tax Policy Center](#) (TPC). We’ve made some adjustments to the TPC estimates (**Figure 2**) to reflect our assumption that the tax cuts passed by the Tax Cuts and Jobs Act (TCJA) don’t sunset in 2026 as the legislation stipulates. We also include newly announced policies such as the increased child care and dependent care tax credits, and we incorporate a (partial) repeal of the cap on state and local tax (SALT) deductions, a repeal that Biden is on record as supporting.

The key individual revenue-raisers in Biden’s plan include provisions that would roll back some of the benefits of the TCJA for upper-income taxpayers (**Figure 3**).

**Figure 3: Biden’s tax increases affecting upper income households**

Biden's Individual Tax Increases Target the Wealthy	
Provisions	Revenue raised over 10 years (billions)
Restore the top income tax rate to 39.6% for incomes above \$400,000	\$320
Restore limits on itemized deductions; limit benefit to 28%	\$455
Phase out deductions for households' business or "pass-through" income for incomes above \$400,000	\$490
Tax capital gains and dividends as ordinary income for incomes above \$1mn. Tax unrealized capital gains at death	\$450

Source: Oxford Economics, Joint Committee on Taxation, Tax Policy Center

Biden’s plan also includes several tax cuts for households, which we estimate at \$975bn over 10 years. Most of those benefits are aimed at lower- and middle-income households, although the benefits of a SALT cap repeal would skew toward higher-income households. We assume a partial SALT repeal for incomes below \$400,000, costing \$460bn.

Importantly, Biden’s tax increases would be borne disproportionately by upper-income households (**Figure 4**), with the TPC estimating 93% of the tax hikes would be paid by households in the top income quintile, 74% by the top 1% (earning above \$837k), and nearly half by the top 0.1% (earning over \$3.7mn) (**Figure 7**).

**With large tax changes, distribution as well as size matters**

**Figure 4: Roughly 93% of the income tax burden would fall on the top income quintile**

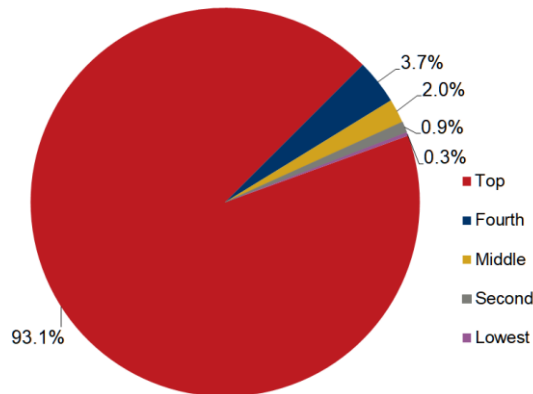
**A corporate tax hike partially reverses the TCJA**

**Biden has proposed roundly \$7tn in new spending**

This is important since the marginal propensity of the top and bottom income earners to consume differs widely, and we anticipate that higher income taxes on the top earners would do little to curb their outlays.

Given this distribution, we estimate an overall multiplier of 0.25 for the individual provisions in Biden’s tax package. So, for every dollar of tax increase, households would reduce their spending by 25 cents. As such, while the proposal would generate a substantial revenue inflow, we don’t believe it would significantly constrain consumer spending.

US: Share of Biden's tax increases by income quintile



Biden’s tax hikes fall heavily on upper-income households, with 85% of the new tax burden carried by the top 5% of earners (incomes above \$350,000).

Source : Oxford Economics/Tax Policy Center

On the corporate tax front, the most significant revenue raisers are:

- A 7ppt increase in the statutory corporate tax rate to 28%, which would raise \$1.3tn over 10 years.
- An increase in taxes on foreign earnings.
- A 15% minimum tax on global book income.
- The elimination of several real estate investment tax preferences.

We don’t expect every dollar of tax increase to translate into a one less dollar in investment. Based on the response of corporations to the TCJA and our assessment of historical fiscal multipliers, we estimate that corporations would reduce investment by 30 cents to 40 cents for each dollar of tax increase.

We estimate Biden’s announced [spending proposals](#) total roughly \$7tn over 10 years, and include:

- \$1.4tn in education, with \$600bn allotted for K-12 and \$750bn for secondary education.
- \$1.7tn on health care (after some costs savings on prescription drugs) to fund an expansion of provisions of the ACA, create a public option and lower the Medicare age of eligibility from 65 to 60.
- \$775bn to provide university pre-K and support child and elder care
- \$700bn buying American-made goods and investing in R&D as part of his Build Back Better Initiative.
- Increase Social Security benefits for the elderly and workers with a low earnings history.

## Biden-lite plan is more likely to become reality

The odds that Biden can enact his stated agenda in its entirety are quite low. Passing any of his major initiatives would require Democratic control of the Senate – currently considered to be a toss-up – while maintaining control of the House, which is much more likely.

Even if Democrats take a majority of the Senate, much of Biden’s platform would be difficult to pass because the Democrats’ edge wouldn’t be filibuster-proof, meaning Biden would need the support of some Republicans to advance much of his agenda. Democrats can pass some legislation – specifically legislation that changes taxes and certain entitlement programs –using the budget reconciliation process. Republicans used this strategy in 2017 for the TCJA.

To reflect a more likely scenario, we’ve created a scaled-down version of Biden’s tax and spending proposals (**Figure 5**) that might garner enough support to pass in the Senate. Our “Biden-lite” scenario has a static cost of around \$1tn over 10 years compared to \$3tn under the as-proposed scenario. We assume a package of tax hikes totaling \$2tn, or roughly half the \$4.1tn:

- The Social Security payroll tax on earnings above \$400,000 is abandoned.
- All other individual provisions of Biden’s proposal are retained.
- A meet-in-the-middle compromise is reached on the major corporate tax hikes, with the statutory corporate tax rate raised to 24%, so these hikes raise half the revenue of the original plan.

On spending, we assume that Biden’s proposals would be cut by more than half to about \$3tn. The infrastructure, education and child tax credit proposals would be reduced by half, the health proposals would be reduced by 60% and the proposals to invest in R&D and buy American goods would be cut by two thirds

**Biden-lite plan would feature \$2tn in tax hikes and \$3tn in outlays**

**Figure 5: A more realistic version of Biden’s proposals**

The Biden-lite Scenario			
Revenues (in billions)		As proposed	Biden-lite
Payroll taxes		\$960	\$0
Individual taxes		\$740	\$740
Corporate taxes		\$2,355	\$1,250
	<b>Total</b>	\$4,055	\$1,990
Spending (in billions)		As proposed	Biden-lite
Infrastructure, clean energy		\$2,000	\$1,000
Education; Child and dependent care		\$1,925	\$960
Health care		\$1,650	\$660
Buy American goods; Invest in R&D		\$700	\$230
Other, including Social Security, housing		\$500	\$100
	<b>Total</b>	\$6,775	\$2,950

Source: Oxford Economics, Tax Policy Center, Committee for Responsible Federal Budget, [www.joebiden.com](http://www.joebiden.com).

## A welcome boost to growth

Running the Biden-lite proposal through our Global Economic Model, we find it would have positive growth implications despite large increases in tax revenues. Indeed, while higher individual income taxes would be expected to constrain spending, the skew toward the highest income earners means the drag on consumer spending would be relatively limited. With three-quarters of the tax burden borne by those earning more than \$840,000, we would expect a very small effect on their marginal propensity to spend. And while the increase in the statutory corporate tax rate would weigh on business investment, we anticipate only a marginal increase in the effective corporate tax rate.

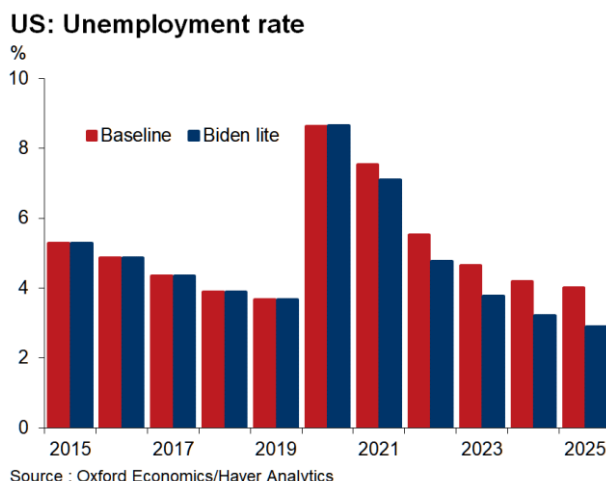
**Biden-lite plan would lift GDP growth by over 2ppts in 2021**

When this is combined with the increase in government spending on education, health care, and infrastructure, real consumer spending accelerates to 6.4% in 2021 – 1.7ppts higher than in the baseline. Businesses witnessing stronger sales would be more willing to hire and raise wages marginally. This would create a virtuous cycle of firmer income growth and increased private sector spending.

The US economy would grow 5.8% in 2021, if Biden’s policies were implemented early in his term, compared with 3.7% in the baseline. This would represent the strongest pace of growth since 1984. Importantly, the economy would recover its Covid losses by Q2 2021 – two quarters earlier than in the baseline – and approach its pre-Covid trajectory. This strong momentum would be reinforced by higher-than-usual [multipliers](#) amid low interest rates and a high output gap.

By the end of Biden’s four-year term, nominal disposable income would be 2% higher than in our baseline, while the economy would count nearly 2 million more jobs, and the unemployment rate would approach 3% (**Figure 6**).

**Figure 6: The unemployment rate falls more quickly if Biden-lite policies are implemented at the start of 2021**



The unemployment rate would approach 3% at the end of a first Biden term under our Biden-lite scenario.

**The Fed raises rates a bit sooner under the Biden-lite scenario**

While we anticipate the Fed will remain extremely dovish in coming months, this scenario would feature an unemployment rate below 4% in early 2023, with PCE inflation running persistently above 2%. As such, we would anticipate the Fed proceeding with one rate hike in late 2023, a few quarters earlier than in our baseline, followed by another in each of 2024 and 2025. The 10-year government bond yield would be about 40bps above the baseline through the 2021-2024 period because of stronger growth and somewhat faster monetary policy tightening.

**Only a modest increase in the deficit**

After accounting for macroeconomic effects, the unified budget deficit would be only 0.2ppts of GDP wider than our baseline forecast at the end of 2024, 5.3% versus 5.1%. While the plan’s static price tag would be around \$1tn, the economic boost to real GDP growth and extra tax revenues would offset about a third of the cost over 10 years. In fact, the debt-to-GDP ratio would largely remain unchanged relative to the baseline, at around 110%.



TABLE 2

Distribution of Federal Tax Change under Biden's Tax Plan  
By expanded cash income percentile, 2021

Expanded cash income percentile <sup>a</sup>	Percent change in after-tax income <sup>b</sup>	Share of total federal tax change (%)	Average federal tax change (\$)	Average federal tax rate <sup>c</sup>	
				Change (% points)	Under the proposal (%)
Lowest quintile	-0.2	0.3	30	0.2	3.4
Second quintile	-0.3	0.9	110	0.3	8.2
Middle quintile	-0.4	2.0	260	0.4	13.5
Fourth quintile	-0.5	3.7	590	0.5	17.3
Top quintile	-5.7	92.6	17,480	4.4	28.4
All	-3.1	100.0	2,660	2.5	21.4
<b>Addendum</b>					
80-90	-0.8	3.8	1,390	0.7	20.6
90-95	-1.2	3.8	2,920	1.0	22.5
95-99	-2.8	11.0	10,860	2.1	25.8
Top 1 percent	-17.0	74.0	299,340	12.0	41.7
Top 0.1 percent	-23.4	46.3	1,830,770	16.3	46.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).

Notes: Estimates are for calendar year. Baseline is current law. Proposal includes all assumptions detailed in the appendix. Number of alternative minimum tax taxpayers is 0.2 million under baseline and 0.1 million under proposal.

(a) Percentiles include both filing and nonfiling units but exclude those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks (in 2019 dollars) are 20%: \$26,200; 40%: \$52,000; 60%: \$93,300; 80%: \$169,500; 90%: \$247,700; 95%: \$352,800; 99%: \$837,400; 99.9%: \$3,665,700. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(b) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(c) Average federal tax (including individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

**Figure 7: Individual income tax hikes would fall mostly on higher-income individuals**