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Macroeconomic Comment

100 days of J. Biden- a new start in social and economic policy in the US

May 17, 2021, Peter von Elten

Due to the successful containment of the pandemic in most regions of the world and the much higher vaccination cadence, strong growth is expected in the second half of the year. The global increase in industrial activity continued in April, reaching the highest level in 10 years with a Purchasing Managers' Index of 55.8. The recovery momentum of the industrialised nations, led by the US, is much more evident than that of the emerging economies. This is mainly due to the weaker growth dynamics in China as well as other important emerging markets such as Mexico, Brazil, Russia and Turkey.

China has reported growth of 18.3% for the first quarter of 2021 compared to the first quarter of 2020; however, excluding the pandemic effects in the first quarter of 2020, year-on-year growth is below 5.5% and compared to the previous quarter only 0.6%. In contrast to the US, China is already focusing on consolidating its debt situation, although the country has deployed smaller economic stimulus programmes compared to the US and Europe. Geopolitical/diplomatic tensions with countries such as India, Australia and Japan are likely to have had a negative impact on Chinese growth, as is the partial renationalisation of supply chains that serve to reduce Western countries' dependence on China.

Europe's export-oriented countries were able to benefit from the demand of the US and China, while tourist destinations remain in a critical state. Nine months after the 27 EU countries agreed to the $750 billion reconstruction and solidarity fund, the plan should finally become operational and allow Europe to catch up economically. The debt constraint, which has forced European countries to budget frugally in recent years, has been subverted by the pandemic and will only be realised in a less disciplined form. Combating climate change, digitalisation and an education offensive serve as justification for adopting substantial, debt-financed supplementary programmes at national levels in addition to European recovery fund.

The economic upswing is detracting from growing geopolitical tensions, emanating from China's aggressive foreign policy and expansive economic ambitions. The curtailment of democratic rights in Hong Kong through the "Security Act" enforced by China, as well as further restrictions on voting rights in Hong Kong, represent a clear breach of internationally valid treaties. Following the stronger integration of Hong Kong, China is threatening to "reunify" Taiwan, including by military

means, this if Taiwan declares itself independent or is diplomatically recognised as an independent country by foreign countries. Thus, China has strongly condemned the minutes of the just concluded G7 meeting, which welcomed Taiwan's participation in the WHO forums, as interference in China's internal affairs. Because of Taiwan's geo-strategic and economic importance, the West will not leave it at protest notes, as it did in the case of Hong Kong, but is working hard to expand military alliances and strengthen its military bases there to keep China from incorporating Taiwan.

"Bidenomics" – a strong government as a corrective to the overburdened market economy order

During the election campaign, the then presidential candidate Biden spoke of four "historic crises" that the United States had to solve: the worst pandemic in more than 100 years, the greatest economic crisis since the Great Depression, the overdue coming to terms with racial discrimination and the dramatic consequences of climate change. He could also have added the country's barely solvable political and social divide and the extreme inequality of living conditions. In the style of Franklin D. Roosevelt's "New Deal", Biden promised a comprehensive restructuring of the American economy, based on the bedrock of a strong and fairer government.

The Biden government's economic policy experiment is based on the assumption that in our complex world, market forces can no longer sufficiently secure the equilibrium and long-term growth potential of an economy. The setbacks due to the pandemic, the interest rate and debt trap, growing inequality, the technological revolution with major impacts on the world regarding working environment, ageing and climate change have created huge challenges that, in the view of the present US government, only a strong and guiding state can address. If the experiment were to succeed, it would mean an economic and social revolution for the US.

In the first 100 days of his presidency, Biden has set an enormously fast pace to implement his reforms as far as possible before the American mid-term elections in a year and a half. At present, he knows that the majority of the American population is behind him, but he will still have to deal with the fundamental opposition of the Republicans. The planned social programmes and the tax increases for the wealthy and corporations are diametrically opposed to a rapprochement between Republicans and Democrats.

The administration under Donald Trump had already allocated about $3 trillion to deal with the pandemic in 2020. Biden wants to drive the restructuring of the society with another $6 trillion. His plan is at the basis on three pillars:

1. American Rescue Plan - $1.9 trillion to deal with the consequences of the pandemic. This plan was approved although all Republicans voted against it. The majority will be spent in 2021.

2. American Jobs Plan- $2.3 trillion for a major infrastructure programme and for the climate-friendly transformation of the economy over the next 8 to 10 years.

3. American Family Plan- $1.8 trillion for social infrastructure, such as broad access to education and social protection like paid parental leave and child benefits.

With the first plan, Biden wanted to implement a minimum wage of $15 to combat the inequality of income that has grown in recent years; this failed due to opposition from the Republicans. In the meantime, Biden has enforced by decree that contractors of US federal agencies must pay their workers $15 (previously about $11) as of March 2022. This measure will drive up the minimum wage across the board over time. Plans 2 and 3 correspond to a social-democratic agenda of the kind that is widespread in Europe but has so far hardly been imaginable in the US. Biden will have to cut back on these two programmes and their partial financing through tax increases in order to achieve approval in Congress, because even some Democratic Congressmen might refuse.

The strong upswing in America could be endangered by a significant pick-up in inflation. The huge amount of money spent on coping with the pandemic goes far beyond the direct economic damage and fuels consumption. Sharply rising costs for raw materials including construction materials, bottlenecks in chip production, massively higher transport costs, renationalisation in the area of supply chains and rising expenses for health care will cause inflation to rise more significantly than previously forecast, at least temporarily.

Where does the US stand at the beginning of the Biden era?

The rapid rise of China is often interpreted as an unmistakable sign of the decline of the US. Today's reality speaks a different language. The majority of the world's most valuable companies and leading technology and life science corporations are located in America. America's global dominance is underscored by 10 of the world's 20 most prestigious universities, its global leadership in venture capital and, together with China, its top position in patent approvals, as well as the undisputed role of the dollar as the world's leading reserve currency. While China's GDP per capita is expected to be around $11,800 in 2021, the comparable figure in the US is around $68,000. China's population is expected to have shrunk for the first time in 2020, while the US continues to show moderate population growth. The Sinocentric giant, which exerts its economic influence through large state-owned enterprises, runs the risk of scaring off international investors. State

requirements such as the compulsion to relocate research, the infiltration of Chinese state officials into the most important management bodies of foreign companies and forced reinvestment of profits in the country are weighing on the willingness to invest. The US, on the other hand, will remain a relatively open and attractive country for international investments, even though Biden will continue his predecessor's "America First" policy.

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Mr. von Elten has decades of experience in the banking industry. Since 2008 he has been a member of the advisory board of BSZ AG, which took over IFP AG in 2014 and thus became Belvoir Capital AG. He enjoyed an international career at JP Morgan for close to 30 years. He returned to Switzerland as General Manager of Schroder & Co Bank AG from 1995 to 2003. Furthermore, Mr. von Elten's passion is art; he is a co-founder of the gallery Elten & Elten.

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