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The Next Four Years: a Biden Economy With a Divided Congress

EVAN WHITMEYER

On January 20th, Joseph R. Biden Jr. will be sworn in as the 46th President of the United States amid national controversy. Much like his first term in the Obama Administration, he will enter the office in the midst of a global economic recession with a deeply divided electorate. Due to the COVID-19 pandemic, however, President-elect Biden must walk a tightrope in balancing public health and economic recovery, a task further complicated by partisan tensions in the newly elected Congress. In the likely scenario in which Democrats fail to recapture each of the two Georgia runoff seats in January, Kentucky Senator Mitch McConnell will remain as Republican Majority Leader, and Biden can expect the usual congressional gridlock.

During his campaign, he promised a large-scale, moderately progressive agenda that included massive investments in renewable energy infrastructure, a public healthcare option, and partial reversals of the 2017 tax cuts. While most Republicans vehemently disagreed with these policies, many Keynesian economists believed that the size and scope of Biden's proposed government spending would better facilitate rapid economic recovery. Additionally, his plans to support early-childhood education and elderly care would increase the labor force and create long term growth. Without control of the Senate, Biden's Administration will need to massively scale back their legislative agenda in order to navigate congressional obstructionism. This means postponing or even abandoning altogether the progressive ideas promised during his campaign.

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The dismantling of global supply chains after Covid-19 :

EMMA KAMB

The world is going to look markedly different under the impact of Covid-19. At the beginning of this year, a supply shock occurred in China and later spread into other countries as the pandemic rolled out, which took its toll on the global supply chain. Therefore, countries are looking towards import substitution as an alternative to global supply chains. So can supply chains be feasibly dismantled? Is a shift to more domestic production possible for all countries?

I would argue that given how integrated our economic system is at this point, there is no efficient manner in which supply chains could be dismantled. Theoretically, supply chains are arranged to function in the most efficient way possible, so as to reduce the cost. Inevitably, prices of goods would go up which would negatively impact the most vulnerable members of our society. Currently, an unavoidable damage on the global supply chain caused by COVID-19 increased the cost substantially. Because cash flow is low, it is going to be even harder to move supply chains, and it is not clear who will pay for the new domestic industries. In sum, retreating from the global supply chains would act as "an implicit subsidy to higher-cost producers."

However, while expensive, it might be possible, if not to totally dismantle supply chains, then to retreat from them to an extent. For example, many countries have become wary of China's increasing dominance in the world market and are finding ways to simplify logistics in order to move away from manufacturing in China. Analysts from Bank of America found that "for all foreign, non-Chinese firms to repatriate their manufacturing operations currently in China [it would cost] $1 trillion over a five-year period." While this seems like an extreme amount, they did not deem it "prohibitive" due to "multiplier effects on the broader economy" that would happen as a result of the severance. This would not however be a complete domestic relocation, but simply a shift away from China, which shows the unlikelihood of supply chains being completely dismantled.

However, a shift to more domestic production is not feasible for all countries. Developing countries would suffer more than developed countries when they use a protectionist policy. Studies show that developing countries pursuing an export-led approach experienced far more rapid economic growth than countries with protectionist policies. These countries succeed through specialization in nontraditional assets with low efficiency along the supply chain.

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Most of Biden's economic results, however, will stem from unilateral presidential powers, not legislative action. Using executive orders, Biden will likely improve economic conditions by incrementally reversing President Trump's immigration and trade policies. If Biden's Administration returns the country to the Obama-era status quo, one might expect an increase in foreign immigration, the rejoining of multilateral agreements, and a lowering of trade barriers. All of these would lead to positive economic growth.

A report released by financial research firm Moody's Analytics in September evaluated the economic impact of various election outcomes and predicted a significantly faster recovery with roughly 17 million additional jobs under the full democratic control of both chambers of Congress and a Biden presidency. Instead of speculating what could have been, however, we must look to the future of the economy in the current political environment. Moody's Analytics' report forecasts a $960 billion dollar increase in real GDP with a split congress under Biden's presidency, which is 4.5% higher than with a second term under President Trump. They also predict 7.4 million more jobs and a 1.4% higher federal debt-to-GDP ratio.

During his Vice Presidency, Biden was able to use his Senate experience and personal relationships to sway votes and garner support for Obama's agenda, but it is unlikely that he can cash in enough favors to pass any large-scale legislation in the near future. With a vaccine on the near horizon, many say that Biden has inherited an economy with nowhere to go except up, but the balance of power continues to shift, and the future of the economy is still unclear.

Chart 2: Real GDP Under Different Election Scenarios

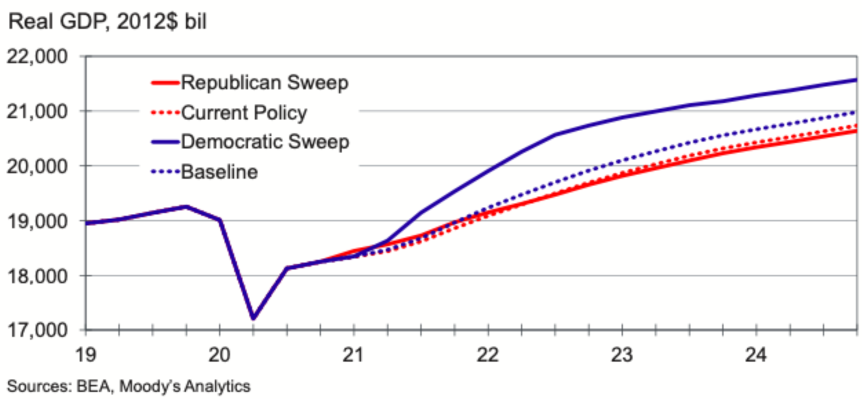
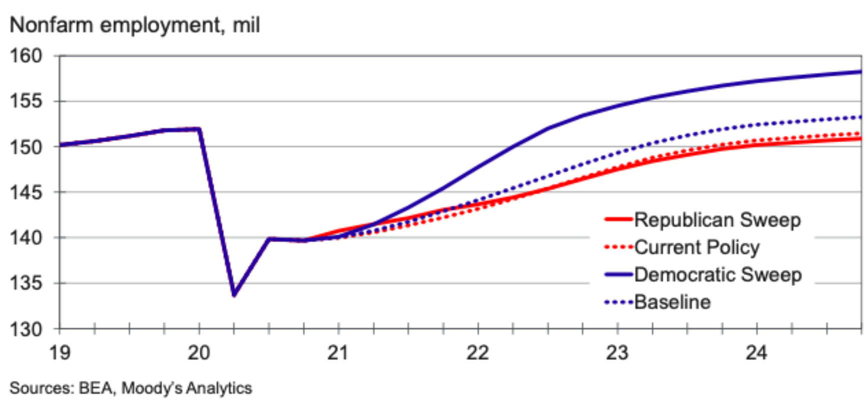


Chart 3: Jobs Under Different Election Scenarios



Sources for information in this article can be provided upon request

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In developed countries, this may work fairly well. Countries such as China have the capital to build the infrastructure necessary for a more self-sustaining domestic economy. The competition in a global economy is not essential, since developed economies have "large domestic markets and capable states, import substitution may well allow [them] to achieve strategic goals without nudging firms into growth-sapping complacency." However, the economy needs to already have a basis of industrialization and a strong state.

An import substitution strategy in a developing economy is not likely to be successful, as they rarely have economies of scale. It is hard for them to achieve without the production of a large number of goods, and "sheltered behind high tariffs, [industries tend] to be small, inefficient and complacent." In addition, developing economies often need help from abroad to grow, and import substitution would limit the ability of those countries to borrow funds. So while a shift away from global supply chains may be possible for developed countries with sufficient capital, it would negatively impact developing countries.

Sources for information in this article can be provided upon request

The Future Implications of Washington's Engrossed Senate Joint Resolution No. 8212

JOEY ROACH

When Washingtonians cast their ballots on November 3rd, they voted in favor of an amendment to the state constitution which will allow public funds to be invested in the private market for the purpose of long-term health care. This measure is an exciting proposal, albeit not one without its risks, that has the intention of alleviating the economic and health-related concerns of senior citizens and their families with regards to receiving the adequate and necessary care that is expected to be needed in the latter stages of life.

With the 8th highest life expectancy in the nation, the state of Washington continues to see a growth in its share of population that is aged 65 or older. In 2010, 12.3% of Washington residents were over the age of 65, but this percentage increased by 4% in 2019. As it currently stands, approximately 70% of these citizens will need some form of long-term care in their lifetime, but a highly expensive medical cost with an average of $250,000 can be catastrophic to the livelihood of older citizens. Given such circumstances, around 850,000 individuals in Washington are currently providing unpaid care for a relative in need, putting stress on entire families to preserve the livelihood of loved ones.

Engrossed Senate Joint Resolution No. 8212 lays the foundation to better address the health care needs for older Washingtonians moving forward. In 2019, the legislature passed a law designed to establish a Long-Term Services and Supports Trust Account in 2022 to provide long-term health care insurance, funded through an employee payroll deduction. Citizens eligible for benefits could stand to claim up to a maximum of $36,500 from the program. Moreover, the belief is that these Trust Account payments to senior citizens would subsequently have positive downstream effects on the aforementioned 850,000 family members by supplying their elderly relatives with the economic means to find more suitable care. Also, this amendment adds on to the expected impacts of this legislation, by exempting this Trust Account from the prohibition of investing public funds into private stocks, which could permit funds from the Trust Account to be invested in the private market, unlike other publicly held funds which can only be invested in fixed-income securities (like government-issued bonds).

In the build-up to the election, both sides gave compelling arguments to consider the ramifications of this constitutional amendment. In endorsement of the proposal, Chris Phillips of the Washington State Investment Board detailed how private investment tends to generate substantially higher rates of return on investments than something like a cash investment would do—given this, if the State Board can appropriately weight risk versus reward in their investments, private market investments with these funds can significantly help establish a larger, long-lasting fund to economically support older citizens with health care needs. On the other hand, the volatility of the private market has caused some to pause and wonder if investing into these markets with long-term health care funds is akin to throwing caution to the wind; in particular, Senators Mike Padden and Bob Hasegawa cited how (inevitable) fluctuations in the private market create the potential for massive losses, compared to investing in a government bond.

Despite the possibility that such an investment could backfire, the citizens of Washington State opted to forge ahead with this constitutional amendment. Beginning in 2022, when the Long-Term Services and Supports Trust Account is established, the State Investment Board will have the power (legislative authorization pending) to transfer funds set aside for the growing older populations into an unpredictable market. The hope moving forward is that such actions will support Washingtonians with a higher return on assets, but it remains to be seen if actual practice will bear out these theoretical gains.

Sources for information in this article can be provided upon request

Promising Future if Scotland Rejoins the EU, But Obstacles Exist

WENJIA LIU

The United Kingdom finally left the European Union on January 31st, 2020, but Brexit hasn't ended yet. The transition period to negotiate a future relationship between the UK and the EU has entered a countdown, while no final deal has been put on the agenda hitherto. The Scottish government's wish backfired with a "no-deal" situation approaching.

Scotland has never wanted to withdraw from the EU. The 2016 referendum by the nation showed that 62% of Scots prefer to remain in the EU. Since the current situation is getting further away from Scotland's desired path, Scots are considering becoming independent from the UK and joining the EU. Indeed, around 48% of Scots would vote yes and 41% would vote no in a second Scottish independence referendum based on the polling data on November 11th, 2020. If Scotland can get its independence from the UK and rejoin the EU, it would be sheltered from the impact of the hard Brexit in the long run. For instance, Scotland will continue having access to the European Single Market in goods and services, free movement of people, generous support from EU funding, and harmonized social and environmental standards. In addition, an independent Scotland that joins the EU would have lower tariffs, fewer border checks, freedom of movement across the EU member states compared to staying in the UK.

However, the preparation to join the EU is demanding. The EU requires its members commit to promoting democracy, to have a sufficient level of economic integration with the EU, and to comply with the budgetary policy (government deficit less than 3% of GDP and the public debt below 60% of GDP). Scotland satisfies the first two conditions well in the form of a democratic government and full compliance with EU law, but it still needs to make an effort in terms of managing the budget deficits. In 2019, the Scottish budget was 8.6% of GDP, which is almost three times the EU's entry requirement. This year, under the context of the coronavirus pandemic, the deficit is estimated to reach 28% of GDP. Then, how to lower its budget deficit is an arduous task for the Scottish government. Since government expenditure is vital to fight the economic recession, a drastic budget cut seems unrealistic. As a consequence, the path to the EU may take longer than expected.

Despite the proposal to rejoin the EU as an independent country, Scotland still has a long way to struggle before joining the EU. In addition to managing government deficits, Scotland also needs to prepare for the years without the benefits of the EU and create its own currency and central bank. For now, the most essential step is: hold a second Scottish independence referendum and let the majority say "yes".

Sources for information in this article can be provided upon request

UPCOMING EVENTS:

Winter Quarter Events: In Winter Quarter the EUB will be hosting various events such as a career panel, an Econ major social, and the quarterly Paul Heyne lecture. Keep an eye out for these events in your email.

Economics Tutoring: The EUB offers free tutoring every weekday at various times every quarter! Check the schedule on the EUB website to see tutoring times. If you need help with an upper level class, however, make sure you check the website to see which tutor can help.

Economizer Submissions: The Economizer will be seeking guest writers for our Winter Quarter issue. Interested writers should check their emails from the department in early Winter quarter for submission instructions.

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