

# The Telegraph

## The shackles of a Republican Senate could be a blessing for Biden

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Economics is best thought of as the study of choices under constraints. US president-elect Joe Biden's team will learn that the hard way when he eventually takes his place in the Oval Office.

Although his public campaign focused on leadership qualities and the soul of the nation, Biden's campaign website advertised 49 transformative policy "plans" that read like a negotiation with the Left wing of his Democratic party, covering everything from tax policy to "fixing" bankruptcy laws.

The problem for his progressive colleagues, and perhaps a blessing for the more moderate Biden himself, is that US government checks and balances mean he will be unable to implement much of that agenda.

Though the next president has a personal leadership mandate, the economic reforms he advocated require buy-in from state governments and Congress, who are unlikely to be receptive.

Take the Covid-19 crisis first. As with Europe, the US is experiencing a dire-looking wave of infections and hospital admissions, likely soon followed by soaring excess deaths.

In South Dakota alone, around one in every 1,500 people currently finds themselves in hospital with the disease. Biden correctly identifies that the efficient rollout of vaccines, rapid testing, contact tracing and decent guidance is crucial to minimising the ongoing pain of this crisis and normalising life as quickly as possible. He will rightly commit resources to their acceleration.

But right now he would love to suppress the virus more strongly too and provide almost \$3 trillion (£2.3 trillion) in federal government relief to compensate people for shutdowns.

He has mused about a "national lockdown", plans to use his presidential bully pulpit to cajole states into adopting mask mandates, and has endorsed the Democratic House of Representatives' Heroes Act, which would bail out states, send unemployed people \$600 extra per week, mail cheques to most Americans and forgive \$10,000 of student loan debt for each borrower.

Biden says we should defer to the experts – by which he means the epidemiologists he has in one ear and the Keynesian economists in the other. Stung by criticism of the Obama administration's handling of the swine flu epidemic and of that government being too timid on "stimulus" during the financial crisis, his plans for smothering Covid-19 and fiscal expansion are suitably bold.

Yet he simply doesn't have the power to deliver them.

The federal government can only directly lock down federal lands or buildings. Other powers could be squeezed out of the Occupational Safety and Health Administration, but that's a bridge too far according to most legal minds.

So Biden, in reality, will have to negotiate with governors and mayors on shutdowns, while taking more marginal steps in areas such as airports and highways. He will face huge resistance from Republican officials nationwide for stringent lockdowns.

On relief spending, it looks probable too that Biden will face a Republican Senate led by the veteran majority leader Mitch McConnell (there are run-offs for the final two seats in Georgia, where Republicans will likely win at least one to maintain a majority).

McConnell has dismissed the case for another blowout stimulus package, because Republicans believe (correctly) that the challenge America's economy faces isn't falling incomes or lack of demand, but the virus and the shifts in activity it generates.

Biden will thus have to water down his spending proposals to something closer to McConnell's preference for targeted funds for small businesses, the unemployed, testing and the vaccine rollout.

Progressives will similarly find themselves frustrated on longer-term ambitions. Biden's campaign promised to raise taxes on capital gains, increase the corporate tax rate from 21pc to 28pc, and to squeeze more income tax out of high earners, all to part-finance an extra \$5 trillion to \$8 trillion spending over a decade on education, social security benefits, housing, healthcare, paid leave and infrastructure.

It wanted a raft of mandates and subsidies to encourage more rapid decarbonisation of the economy, in turn raising energy prices.

And despite the US's very low 3.5pc unemployment rate prior to Covid-19, it desired to overhaul labour laws, through a national \$15 minimum wage, new powers to trade unions, restrictions on gig economy employees classifying as independent contractors, and enforced collective bargaining for state government employees.

Again, divided government would make most of this agenda dead on arrival. Hoover Institution economists had reckoned that the most significant energy, health and tax policies alone would have cut long-run median household incomes by \$6,700 and reduced employment by 4.9m people.

But without Congressional support, these full tax hikes, government healthcare expansions and renewables subsidies will not happen.

Yes, Biden has executive powers and his regulatory state could impose restrictions on vehicle carbon emissions, healthcare plans and banks. But one author of the Hoover work, the University of Chicago economist Casey Mulligan, estimates the costs of Biden's agenda would be slashed without Senate control, falling to \$1,700 for the median household, with 800,000 fewer people employed rather than the near 5m outlined earlier.

Free-market economists are therefore hoping for divided government. Though at its worst this can produce gridlock, the resultant horse-trading with Republicans will likely mean that to get some funds for programmes they desire, Democrats will have to find peace with extending tax cuts too – a welcome idea exiting this recession.

Even more positively for we economic liberals, Biden could still reverse Trump's destructive executive actions that have effectively halted the legal immigration system, escalated a trade war with China and ground the World Trade Organisation to a halt.

This impending scenario, though, explains why a lot of Left-wing voices in the US are not overjoyed with these election results.

Yes, Donald Trump was defeated. But the transformative progressive shift in policy they hoped for was a casualty of the voting booths too.

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