



Europe Welcomes Historic US Stimulus, But Some Raise Inflation Fears

Jamie Dettmer

March 12, 2021

European policymakers are welcoming U.S. President Joe Biden's stimulus package amid hopes the \$1.9 trillion package approved by the U.S. Congress midweek will help boost their economies, too.

"Help is here," Biden tweeted after the vote on one of the most sweeping spending bills in American history.

The U.S. president largely had Americans in mind with the tweet, but Europeans are expecting spillover benefits from the legislation that was passed exactly one year after the World Health Organization officially announced the global coronavirus pandemic.

Britain's Financial Times newspaper said the legislation is "almost as historic as the pandemic it seeks to address." Its editorial board noted that the "Biden plan is also of great significance to the wider world economy."

President Joe Biden, accompanied by Vice President Kamala Harris, looks up after signing the American Rescue Plan, a coronavirus relief package, in the Oval Office of the White House, March 11, 2021.

European investors are also showing their appreciation. Stocks opened higher Thursday after the House of Representatives passed Biden's sweeping COVID-19 relief bill, which is designed to help supercharge the country's economic recovery.

Earlier this week the Paris-based Organization for Economic Cooperation and Development (OECD) upgraded its 2021 global economic forecast, largely thanks to vaccine rollouts and the U.S. stimulus package. It predicts the surge in government spending will boost American domestic growth this year from a previous forecast of 3.2 percent to 6.5 percent and it noted there will be benefits for other economies, including European ones, as a result of increased American demand and trade.

Global gross domestic product growth is now expected, says the OECD, at 5.6% this year, more than a percentage point above the organization's December forecast,

European Central Bank President Christine Lagarde addresses European lawmakers during a plenary session at the European Parliament in Brussels, Belgium, Feb. 8, 2021.

Christine Lagarde, head of the European Central Bank, praised the Biden bill — known as the American Rescue Plan — and urged member states of the European Union on Thursday to increase their spending more quickly, and to reform their economies to spur future growth. The EU passed an \$857 billion stimulus package in 2020 but most national governments won't start getting the money until much later this year.

"The big difference between the Biden stimulus — debated, voted by the two houses, signed into law, checks in the mail — and our massive fiscal stimulus here in Europe is that there is a bit of a lagged time between the two," she said. "The next generation EU [spending package] is critically important in order to help stimulate the European economies from the fiscal point of view," she said.

Inflation fears

But the scale of the U.S. stimulus package, coming on top of two previous massive spending measures, is being questioned by some, who fear the measure will overheat the U.S. economy and they are sounding the alarm about inflation risk.

"Households are already sitting on an estimated \$1.6 trillion of excess savings, due to a combination of state largesse, a stronger than expected rebound last summer, and an unwillingness or inability for consumers to spend on the activities they would usually want to over the past year. As restrictions are eased, the opportunities for pent-up demand to go wild are therefore huge, although highly uncertain," according to Ryan Bourne, author of "Economics In One Virus" and an economist at the Cato Institute, a libertarian research organization.

Jeremy Warner, a business columnist for London's Daily Telegraph, questioned the size of the stimulus. "Coming on top of the two previous stimulus packages, neither of which have yet been fully utilized, it's a huge sum of money — nearly three times as big as the stimulus (former U.S. president) Barack Obama persuaded Congress to enact in the aftermath of the financial crisis — raising the question of whether the U.S. economy actually needs such a mighty, additional shot in the arm."

Some progressive American economists have also questioned the Biden package, including Larry Summers, a former treasury secretary for former U.S. president Bill Clinton and onetime adviser to former president Barack Obama, who fears stimulus might cause "inflationary pressures of a kind we have not seen in a generation, with consequences for the value of the dollar and financial stability."

Countering concerns

Biden officials say their biggest fear when designing the package was not doing too much but of doing too little. They argue Washington's response to the 2008-09 financial crash was inadequate and they didn't want to repeat that mistake, hence the scale of the stimulus. They say the stimulus will help America avoid being stuck in the low-growth economic dynamics Europe and Japan have been trapped in since the financial crash.

The U.S. Federal Reserve has also dismissed fears of runaway inflation as misplaced, saying it will be vigilant and intends to keep interest rates low to dampen any inflation that emerges. The Fed chairman, Jerome Powell, says the biggest risk is of a temporary jump in prices.