

Most new presidential terms begin with a fresh set of priorities, but when President-elect Joe Biden takes office in January, he'll also be tasked with leading the nation's recovery from multiple ongoing crises.



## WHAT TO EXPECT: A NEW TERM IN WASHINGTON

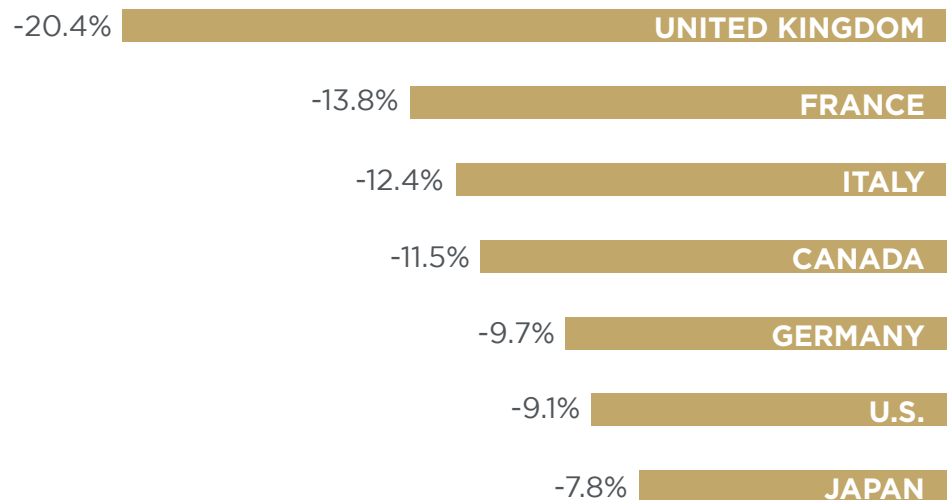
### Overview

2020 brought a very powerful pair of crises: A worldwide pandemic and the deepest recession since World War II. While most Americans have been affected in one way or another, the variance in impact on individual households is staggering — kind of like the way a tornado can demolish one house but leave the homes situated on either side intact.

Households in which income could continue to be earned, be it from an essential job such as a health care worker, grocery store clerk or mail carrier, or a position which could be transitioned to work from home, have in many cases been unscathed by the economic decline. Yet others with employees who work in hard-hit industries such as travel, hospitality, food and beverage may have lost their jobs, their livelihood and even their health insurance, life insurance and matching retirement plan contributions. Many entrepreneurs have had to shutter their small businesses. For these households, the economic situation may be dire, threatening their ability to pay for basic necessities such as food, housing and transportation.<sup>1</sup>

Worldwide, millions of people have been displaced from jobs, consumer spending has dropped precipitously and company plans for growth and expansion have been put on hold. All G7 countries experienced significant plunges in gross domestic product this spring.<sup>2</sup>

### G7 Countries: Change in GDP from Q1 2020 to Q2 2020<sup>3</sup>



## New U.S. Leadership

Joe Biden and Kamala Harris have published detailed plans on how they intend to tackle the COVID crisis and economic decline, which some analysts predict will outlive the pandemic.<sup>4</sup> The Biden-Harris administration also is prepared to address citizen protests and initiatives, which have drawn attention to other timely issues, such as racial equality and climate change, over the past few years.

**1918 Pandemic Influenza: “There were three different waves of illness during the pandemic, starting in March 1918 and subsiding by summer of 1919. The pandemic peaked in the U.S. during the second wave, in the fall of 1918. A third wave of illness occurred during the winter and spring of 1919.”<sup>5</sup>**

## A Plan To End The Pandemic

While the Trump administration believed that the pandemic was best managed at the state level, Biden is in favor of swift and aggressive federal government action to unify state efforts in an all-in-one push to stop the coronavirus spread. The following are details from the new plan:<sup>6</sup>

- Exponentially increase testing by:
  - Ramping up production and distribution of tens of millions of tests
  - Investing in at-home and instant tests
  - Doubling the current number of drive-through testing sites
- Establish a nationwide Public Health Jobs Corps to create immediate jobs to perform contact tracing and protect at-risk populations
- Maximize the Defense Production Act to increase production of masks, face shields and other personal protective equipment so the national supply exceeds demand and stores and stockpiles are fully replenished
  - Utilize American-sourced and manufactured capabilities to limit dependency on other countries
  - Provide all states, cities, tribes and territories the critical supplies they need
  - Provide the resources necessary for schools, small businesses and households to remain protected
- Establish national guidelines based on specific evidence-based guidance by the Centers for Disease Control and Prevention (CDC)
  - Establish benchmark measures to help municipalities and communities determine the level of risk and degree of viral spread within local areas
  - Establish benchmark measures to determine when to open or close certain businesses, bars, restaurants, schools and other public spaces



- Provide specific instructions on what is needed to make classrooms and facilities safe, including appropriate restrictions for the size of gatherings and when to issue stay-at-home restrictions
- Establish a renewable fund for state and local governments to help prevent budget shortfalls so critical roles, such as teachers and first responders, do not suffer from pay cuts or layoffs during a crisis situation
- Work with Congress to pass an emergency package that will:
  - Ensure schools have the additional resources they need to adapt effectively to COVID-19
  - Help small businesses cover the costs of operating safely, including things like plexiglass and PPE
- Work with governors and mayors on the best way to implement mask mandates nationwide, as necessary
- Invest \$25 billion in a vaccine manufacturing and distribution, and guarantee every American has access to a cost-free vaccine
  - Ensure consumers are not price gouged as new drugs and therapies come onto the market
- Establish a high-risk task force to protect older Americans and others at high risk to COVID-19
- Create a nationwide pandemic dashboard that enables people to gauge the level of real-time transmission occurring in their ZIP code (and places they plan to travel)
- Rebuild and expand defenses to predict, prevent and mitigate future pandemic threats
- Ensure the millions of Americans who suffer long-term side effects from COVID will not face higher premiums or denial of health insurance because it is classified as a pre-existing condition

## A Plan for Economic and Household Recovery

The Biden administration's goal is to rebuild and revitalize the economy by remedying previous structural weaknesses and barriers that handicapped some demographics from pursuing and achieving personal prosperity. By working on both sides of the aisle with former colleagues in Congress, Biden and Harris are committed to providing immediate relief to working families, small businesses and communities suffering from the economic decline. Their plans include:<sup>7</sup>

- Offering a comeback package for small businesses and entrepreneurs to re-establish shuttered businesses
- Job generation to support building modern, sustainable infrastructure now and delivering clean energy in the future
- Establishing U.S.-based industrial and small-business-led supply chains to retain and create millions of jobs in manufacturing and technology



In the interest of prioritizing jobs — and after the pandemic showed how much caregiving weighs on working parents — the Biden administration will focus on ways to provide affordable quality care for children, aging relatives and people with disabilities. This includes access to both home and community-based care as well as increasing wages, benefits and professional opportunities for caregivers and educators. With a stronger foundation of nationwide caregivers, millions more people can join the labor force and contribute to a stronger economy in the future.

## Biden Tax Plan

In 2019, the tax plan Biden proposed during the primaries included the following highlights:<sup>8</sup>

- Raise the highest individual tax rate to 39.6% (from the current 37%)
- Place a cap on deductions for wealthy taxpayers
- Tax capital gains at income tax rate for those who earn more than \$1 million a year
- End the stepped-up basis loophole for wealth inherited by heirs
- End real estate loopholes (e.g., limit “like-kind exchanges” by real estate investors)
- Impose sanctions for using tax havens
- Raise the corporate tax rate to 28% (currently 21%; previously 35%)
- Establish a minimum corporate tax rate that cannot be reduced by deductions
- Tax foreign profits at 21%

However, 2020 brought an altogether new set of priorities. In the spring, Biden announced that as president he would not support a tax increase for individuals earning less than \$400,000/year. By autumn, Biden updated his tax plan with a greater focus on helping the economy recover from the pandemic. It features credits for individuals suffering financially and building an American reshoring platform through corporate taxes and penalties. The following are some highlights of the updated Biden tax plan:

### Individual Taxpayers:<sup>9</sup>

- Increase the Child Tax Credit to \$3,600 for children under age 6 and \$3,000 per child for children ages 6 to 17
- Offer up to \$8,000 in tax credits to low-income and middle-class families to help pay for childcare
- Expand access to tax subsidy credits to ensure no family spends more than 8.5% of its income on health insurance

### Corporate Taxpayers:<sup>10</sup>

- Introduce a 10% tax penalty for companies that offshore manufacturing and service jobs (e.g., call centers) to foreign nations that in turn sell goods or provide services back to the American market; plus a 30.8% tax rate on those profits





- Introduce a 10% advanceable “Made in America” tax credit for companies that invest to create more American jobs and accelerate economic recovery. For example:
  - Revitalize a closed or closing facility
  - Retool an existing factory to produce electric vehicles, new machinery or equipment that meet new Buy American standards
  - Return overseas production/call center/other service jobs to the U.S.
  - Increase wages for manufacturing jobs paying up to \$100,000
- Introduce a 21% minimum tax on foreign earnings of overseas U.S. companies (applies to earnings in each separate foreign country)
- Close current loophole that enables U.S. companies to avoid paying taxes on the first 10% of profits when relocating manufacturing and service jobs to foreign nations
- Eliminate tax deductions and write-off expenses for moving production overseas
- Introduce stronger anti-inversion regulations and penalties

## A Plan To Address Racial Equality

During the midst of the worst pandemic since 1918, the Black Lives Matter movement gained momentum following a series of high-profile incidents of police brutality against Black Americans. In the aftermath of nationwide marches and protests, more than a third of Americans believe the increased focus on issues of race this year have created a turning point, while 48% think it will lead to policy and societal changes.<sup>11</sup> Electing a woman of color to be vice president may also help turn the tide. The Biden/Harris team plans to advance racial equity in America as a core component in every facet of its economic agenda, from investing in Black, Latino and Native American entrepreneurs and communities, to expanding affordable housing and educational opportunities, to advancing policing and criminal justice reform.<sup>12</sup>

## A Plan To Address Climate Change

While the debate over what causes climate change may not be reconciled, nearly two-thirds of adults in the U.S. believe protecting the environment should be a top priority for the president and Congress. According to the Pew Research Center:<sup>13</sup>

- 63% of Americans say stricter environmental regulations are worth the cost
- 62% say climate change has had some effect on their local community
- 67% say the federal government isn't doing enough to reduce the effects of global climate change



Because the majority of Americans support efforts to combat the impact of extreme weather, there is a good chance subsequent legislation may enjoy bipartisan support in Congress. The Biden team hopes to address environmental changes while at the same time stimulating the economy by generating jobs in environmentally responsive industries. Biden aims to focus on innovation to create new and effective products manufactured by American workers with supply chain materials provided by small businesses, family farms and job creators throughout the U.S.

This expansive initiative would include infrastructure projects (e.g., roads, bridges, green spaces, water systems, electricity grids and universal broadband), the auto industry, public transit, reliable carbon pollution-free energy solutions, weatherized and sustainable homes, buildings and appliances, and climate-smart agriculture with an emphasis on resilience and conservation.

Ultimately, the goal of the Biden administration is to lay a foundation for sustainable growth, strengthen global competitiveness, withstand the impacts of climate change and improve public health via cleaner air and water.<sup>14</sup>

## Final Thoughts

Whether these initiatives see headway under a new administration and Congressional session in Washington remains to be seen. However, there will be stark differences between the old guard and the new, mainly that the new administration will probably look more like the traditional political environment of the past. In lieu of dramatic reform deals and pronouncements, it's more likely the federal government will plod along seeking to negotiate legislative solutions for the highest priorities touching the greatest number of people.

At very least, this political climate is familiar to the investment markets. Barring any other unforeseen crises, markets are not expected to undergo wildly volatile swings, but rather bask in the comfort of a more predictable government. We don't need to look back further than the last recession to appreciate that a slow economic recovery was, in fact, accompanied by strong, sustainable stock market performance. Perhaps that is a fitting solution to the exhausting events of 2020 and a silver lining for the new and more conventional term starting in 2021.



<sup>1</sup> MSN. Dec. 6, 2020. "Pandemic sends hunger rising in America, and children bear the brunt." <https://www.msn.com/en-us/news/us/pandemic-sends-hunger-rising-in-america-and-children-bear-the-brunt/ar-BB1bFpxZ>. Accessed Dec. 7, 2020.

<sup>2</sup> Julia Horowitz. CNN. Aug. 28, 2020. "Covid-19 dealt a shock to the world's top economies. Here's who has fared the worst." <https://www.cnn.com/2020/08/28/economy/global-recession-g7-countries/index.html>. Accessed Dec. 4, 2020.

<sup>3</sup> Ibid.

<sup>4</sup> Holly Ellyatt. CNBC. Nov. 11, 2020. "'Don't be under the illusion' that an economic recovery will come quickly with a vaccine, UBS' Weber says." <https://www.cnbc.com/2020/11/11/coronavirus-vaccine-doesnt-mean-a-quick-economic-recovery-ubs-weber.html>. Accessed Dec. 4, 2020.

<sup>5</sup> CDC. May 11, 2018. "1918 Pandemic Influenza: Three Waves." <https://www.cdc.gov/flu/pandemic-resources/1918-commemoration/three-waves.htm>. Accessed Dec. 4, 2020.

<sup>6</sup> Biden-Harris Transition. December 2020. "COVID-19." <https://buildbackbetter.gov/priorities/covid-19>. Accessed Dec. 4, 2020.

<sup>7</sup> Biden-Harris Transition. December 2020. "Economic Recovery." <https://buildbackbetter.gov/priorities/economic-recovery>. Accessed Dec. 4, 2020.

<sup>8</sup> Ben Geier. SmartAsset. Oct. 29, 2020. "Joe Biden's Tax Plan Explained." <https://smartasset.com/taxes/joe-bidens-tax-plan-explained>. Accessed Dec. 9, 2020.

<sup>9</sup> JoeBiden.com. September 2020. "A tale of two tax policies: Trump rewards wealth, Biden rewards work." <https://joebiden.com/two-tax-policies/>. Accessed Dec. 9, 2020.

<sup>10</sup> JoeBiden.com. September 2020. "The Biden-Harris Plan to Fight for Workers by Delivering on Buy America and Make It in America." <https://joebiden.com/wp-content/uploads/2020/09/Buy-America-fact-sheet.pdf>. Accessed Dec. 9, 2020.

<sup>11</sup> Julian Menasce Horowitz, Kim Parker, Anna Brown and Kiana Cox. Pew Research Center. Oct. 6, 2020. "Amid National Reckoning, Americans Divided on Whether Increased Focus on Race Will Lead to Major Policy Change." <https://www.pewsocialtrends.org/2020/10/06/amid-national-reckoning-americans-divided-on-whether-increased-focus-on-race-will-lead-to-major-policy-change>. Accessed Dec. 4, 2020.

<sup>12</sup> Biden-Harris Transition. December 2020. "Racial Equity." <https://buildbackbetter.gov/priorities/racial-equity/>. Accessed Dec. 4, 2020.

<sup>13</sup> Cary Funk and Brian Kennedy. Pew Research Center. April 21, 2020. "How Americans see climate change and the environment in 7 charts." <https://www.pewresearch.org/fact-tank/2020/04/21/how-americans-see-climate-change-and-the-environment-in-7-charts/>. Accessed Dec. 4, 2020.

<sup>14</sup> Biden-Harris Transition. December 2020. "COVID-19." <https://buildbackbetter.gov/priorities/covid-19/>. Accessed Dec. 4, 2020.

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