

ANALYSIS OF US FISCAL POLICY PLANS

Susana Párraga and Moritz Roth

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Since the onset of the COVID-19 pandemic, the US fiscal policy response has been very significant.¹ However, the persistence of the ongoing crisis has made it necessary recently to amplify the initial stimulus with two new fiscal packages. The first was passed in December 2020, and the second announced in January 2021. Essentially, these packages will temporarily and sequentially extend several support measures for households and firms due to expire at the end of 2020. They include most notably loans to SMEs under the Paycheque Protection Program (PPP), extensions to unemployment benefit and direct stimulus payments to individuals (see Chart 1.1). If the plan announced in January should be approved in full, the overall amount of both packages might exceed 14% of GDP and would be concentrated in the first two quarters of this year.

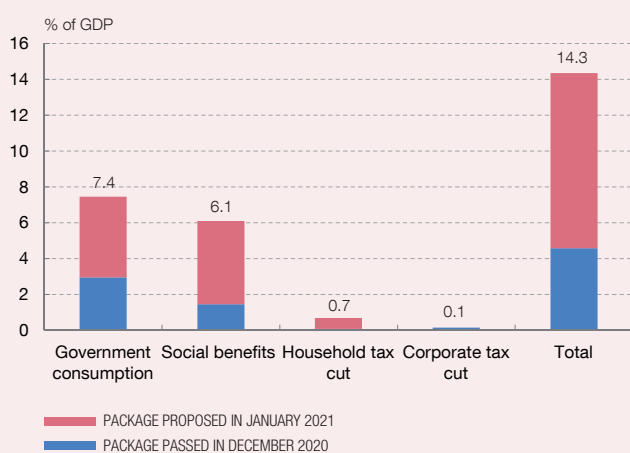
These two stimulus programmes aside, President Biden's electoral programme² also included a fiscal stimulus plan geared to mobilising funds of up to 10% of GDP for the period running from end-2021 to end-2024. This proposal would focus on a substantial infrastructure plan accompanied by increases in government consumption and in social benefits (see Chart 1.2). Further, on the revenue side, this plan would entail tax hikes for large corporations and higher-income households, which would partly finance the increase in expenditure and selectively reduce the tax burden of lower-income households.³

This box simulates the economic effects on the United States and the rest of the world of these three fiscal packages, using the NiGEM model.⁴ The composition of the fiscal packages influences their economic impact,

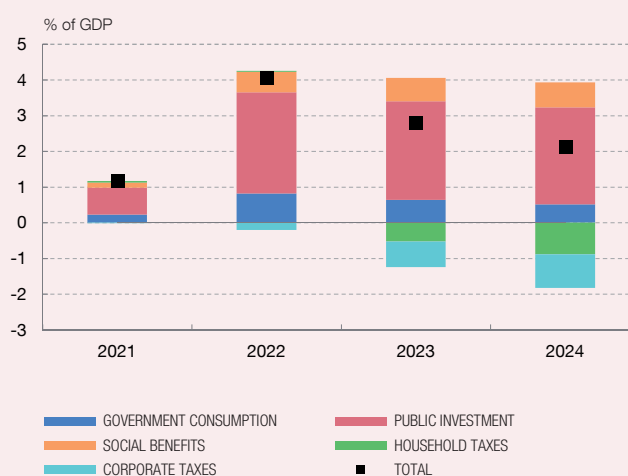
Chart 1
US FISCAL POLICY PLANS

The persistence of the COVID-19 crisis has led different US political forces to consider the advisability of adopting additional fiscal measures.

1 FISCAL MEASURES TO ALLEVIATE THE EFFECTS OF COVID-19 IN 2021



2 PRESIDENT BIDEN'S CAMPAIGN FISCAL PLAN



SOURCE: Banco de España, drawing on the Congressional Budget Office, Democrat campaign proposals and, among other specialist analysts, the projections of the Committee for a Responsible Federal Budget and the Tax Policy Center.

NOTE: The GDP used as a denominator for determining the scale of the measures already includes the macro effect of such measures.

1 See Box 2 of Banco de España Economic Bulletin 4/2020, "Fiscal policy response to the crisis in the euro area and the United States".

2 See <https://joebiden.com/joes-vision/>.

3 See Tax Policy Center (2020). "An updated analysis of former Vice President Biden's tax proposals", 15 October 2020.

4 The model's documentation, drafted by the National Institute of Economic and Social Research, is available at <https://nimodel.niesr.ac.uk/>. The simulation includes various assumptions, one of which is that the plans announced should be approved in their entirety. Moreover, it is assumed that monetary policy does not react to the fiscal stimulus until 2024, whereafter it responds endogenously to the sustained increase in inflation caused by fiscal policy. Further assumptions are that expectations are adaptive and that nominal exchange rates hold constant.

ANALYSIS OF US FISCAL POLICY PLANS (cont'd)

given that the fiscal multipliers⁵, which can only be estimated with notable uncertainty, vary significantly depending on the economic policy instrument used. Hence, the implicit multipliers in the NiGEM model are 0.8 for government consumption, 1.0 for public investment, 0.2 for transfers to and taxes on households, and 0.1 for firm-related tax measures. Under this model, the fiscal measures legislated in December 2020 and announced in January this year would raise the level of US GDP by 5% in 2021, with this effect gradually waning in the following years⁶ (see Chart 2.1). It is worth pointing out that both packages have a similar impact on GDP, since the January proposals, while mobilising more funds, would give rise to a lower fiscal multiplier as they earmark a large portion of such funds to social transfers.

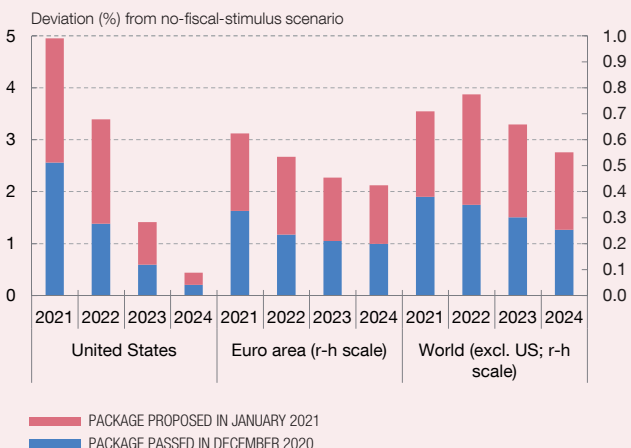
As regards the spillover effects on the rest of the world, the combined fiscal stimulus of these two US programmes would have positive effects on global GDP (see, once again, Chart 2.1), mainly on account of the increase in US demand on global markets. Specifically, the level of global GDP (excluding the United States) would rise by 0.7% in 2021, with the effect gradually fading but still at 0.5% in 2024.⁷ For the euro area the effects would be slightly lower: the level of GDP would increase by around 0.6% in 2021 and by 0.4% in annual average terms in the following years. These results are consistent with the empirical evidence on the spillovers of US fiscal expansions on the rest of the world.⁸

Compared with these two programmes, President Biden's campaign fiscal plan, whose realisation is still very uncertain,

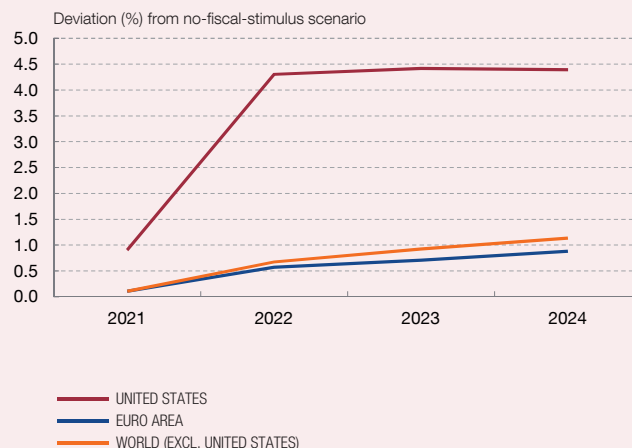
Chart 2
GLOBAL MACROECONOMIC IMPACT OF US FISCAL POLICY PLANS

The additional fiscal packages in the United States would have positive effects on US and rest-of-the-world economic activity.

1 EFFECTS ON US AND OTHER ECONOMIES' GDP OF THE FISCAL MEASURES TO ALLEVIATE THE IMPACT OF COVID-19



2 EFFECTS OF THE CAMPAIGN FISCAL PLAN ON US AND OTHER ECONOMIES' GDP



SOURCE: Banco de España, based on simulations with the National Institute Global Econometric Model (NiGEM).

5 The fiscal multipliers measure the impact on GDP arising from a change in a specific fiscal instrument for an amount equivalent to 1% of GDP. The multipliers implicit in the NiGEM model are consistent with the literature for the United States. See IMF Working Paper WP/1073 and Ramey, V. (2019). "Ten years after the financial crisis: what have we learned from the renaissance in fiscal research?", *J. Economic Perspectives*, 33 (2), 89-114.

6 These results are in line with estimates by other US specialist analysts, although the various studies differ as to the scale and composition of the fiscal impulse, and to the type of model used. See, for example, the analysis by the Committee for a Responsible Federal Budget "The Response & Relief Act Would Support the Economic Recovery", that by Brookings "The macroeconomic implications of Biden's \$1.9 trillion fiscal package" and the "Penn Wharton Budget Model Analysis of the Biden Platform".

7 The results of the simulations are relatively persistent spillovers on the rest of the world owing to the combination of an increase in US external demand, as well as in the other economies, and a real appreciation of the dollar against other currencies.

8 See A. Illori, J. Páez-Farrell, and C. Thoenissen (2020), "Fiscal policy shocks and international spillovers", CAMA Working Paper 95/2020, November 2020, and P. Blagrove, G. Ho, K. Koloskova, and E. Vesperoni (2017), "Fiscal spillovers: the importance of macroeconomic and policy conditions in transmission", *Spillover Notes* 11, IMF.

would posit a higher fiscal multiplier and more persistent effects on economic activity owing to its bias towards public investment.⁹ Were this plan to be implemented in full, the level of US GDP would increase by a further 1% in 2021 and by 4.4% more in annual average terms from 2022 to 2024 (see Chart 2.2). This plan could also raise global GDP and that of the euro area by an additional 0.1% in 2021. The effects on economic activity would be greater over the period running from 2022 to 2024, during which time global GDP and that of the euro area would respectively average an increase of 0.9% and 0.7% per annum.

The results set out in this box should be taken with caution and seen as an initial approximation to the potential

effects of the fiscal packages analysed on economic activity. For one thing, the fiscal impulse ultimately implemented might be lower than announced, given the ambitiousness of the proposals and US political dynamics. For another, while they remain active, the social distancing and pandemic-containment measures might mean that the fiscal multiplier of these stimulus programmes will be lower than empirically documented in other previous episodes.¹⁰ Lastly, while the simulations take into account the trade links between the different world economies, they do not consider other potential transmission channels, such as financial ones, or the effects on uncertainty and confidence.

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- 9 The model does not allow certain details of the fiscal plans to be included, which might affect the results. For instance, the net budgetary change of the tax measures is used and certain measures earmarked for households with lower average income are not included. Insofar as these households usually have a high marginal propensity to consume, the total effect of the fiscal stimulus set out in this box might be skewed to the downside. Further, the fiscal measures affecting higher-income agents might cause significant changes to their behaviour, leading them to reduce labour supply (households) or their level of investment (households and firms), which would skew the results in the opposite direction.
- 10 See Congressional Budget Office (2020), (2020), “Key methods that CBO used to estimate the effects of pandemic related legislation on output”, Working Paper 2020-07.