

Continuity in US policy

The strong disagreements between President Trump and President Biden were well followed and heightened by media comment in the run up to and aftermath of the election. They reflected some big policy differences as well as a chasm over style, behaviour and the results of the election. Where Mr Trump wanted to limit immigration President Biden wanted to make it easier. Where President Trump wanted to avoid long and costly lockdowns, President Biden wishes to enforce strict rules to respond to the pandemic. Where President Biden wishes to decarbonise quickly President Trump wanted to grow the fossil fuel economy faster to make the US independent of fuel imports.

When it comes to governing there is a lot more continuity than most commentators report. Both men believe in a large stimulus from the Fed to get recovery underway, favouring ultra low rates of interest, plenty of Fed bond buying to keep markets liquid and direct Fed support to banks and the corporate sector. Both believe in a substantial fiscal stimulus with the state spending considerably more than it collects in taxes, though they would disagree about some of the spending priorities. Both in particular believe in sending a decent sum of money to every US adult to spend to get things moving again.

Both men accept the general government advice in Washington that China is a major challenge to the USA. They both wish to confront China on intellectual property, security and Hong Kong governance issues, and President Biden is even more vocal on the issue of the Uighurs. Both believe in onshoring a lot more production capacity to create jobs at home and reduce US dependence on imports. Make America great again has transposed to build back better with more built and made in America.

As a result the US has now embarked on a massive policy experiment. They wish to run the economy hot. The Democrats have just narrowly passed a huge stimulus package, opposed by every Republican as too large. The USA will borrow an additional \$1.9tn to get things moving, sending much of the money citizens to spend. Meanwhile the Fed has expanded the money supply by a stunning 25% over the last year.

In contrast the UK money supply has grown at less than half that rate despite the UK efforts to provide a monetary boost. The UK fiscal boost is not as large as the US one adjusted for size of the economies and fell short of sending every person in the country a cheque to boost spending. We should expect the USA to outgrow us this year. We should also expect them to have more inflation on the back of their expansion. The US authorities are sure the pick up in inflation will be mild and helpful, not high and persistent. I will return to this in future blogs.