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USA: Clear sailing for Joe Biden's economic programme after winning Senate majority

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After the Democrats' success in the Senate run-off elections in the US State of Georgia, the party now has the de-facto majority in both chambers of Congress, and therefore US President-elect Joe Biden should soon have much more leeway for implementing his economic policy programmes.

After the Democratic candidates' victory in the race for two Senate seats, the Democrats now have 50 seats in the Senate, tying them with the Republicans. However, in the event of a stalemate in the chamber, Democratic vice-president-elect Kamala Harris also has a vote in the Senate. The Democrats already hold the majority in the House of Representatives.

On the stock markets, the soon-to-be-inaugurated president's powers were largely well received. Both the Dow Jones and the German stock index DAX climbed to new record highs. With the "blue wave" sweeping Congress, Biden has no need for Republican support for his plans and can now launch even more extensive economic programmes in the fight against the Corona crisis.

US Congress already approved an aid package to the tune of USD 900bn at the turn of the year. Biden, with control of both chambers of Congress, is now likely to increase this aid. Biden's appointing of former Federal Reserve Chair Janet Yellen as future Treasury Secretary is also seen by observers as an indication of extensive aid, as Yellen is considered an advocate of an economic policy that stimulates the economy.

Biden is also expected to make massive investments in infrastructure. This is urgently needed, as, in a recent comparison of countries by the World Economic Forum, the USA only came in 13th in terms of infrastructure. Such programmes have already been anticipated on the stock markets, with shares of building materials manufacturers active in the USA, such as CRH or HeidelbergCement, recently making strong gains.

Focus on climate policy and renewable energy sources

Biden wants to put particular focus on climate policy and the driving of renewable energies. Accordingly, the shares of relevant companies have recently been well sought after. The president elect has promised investments of USD 2tn in climate policy and green energies.

Analysts expect a boom in electric cars in the USA as a result. For example, Biden wants to expand the charging station network for EVs, and tax incentives for switching to electric vehicles are also expected. The environmental protection laws loosened by outgoing US President Donald Trump could also be reinstated under Biden.

Are wealth taxes coming?

Some of the Trump-era tax cuts are also likely to be reversed under the new president. Biden advocates greater redistribution, intending to tax the rich and corporations more heavily. For example, he wants to raise the corporate tax rate, which has been cut to 21 percent, back to 28 percent. A possible wealth tax is also under discussion.

Furthermore, it is likely that Biden will increase direct financial aid from USD 600 to USD 2,000 per family, as has been announced. At the turn of the year, the Republicans had prevented the corresponding resolution, but now the future president can count on the support of the Senate.

With his economic stimulus programmes, the president-elect must also fight against the dismal situation on the labour market. During the crisis, more than 22 million jobs were lost in the USA, only about half of which have been regained so far. The situation thus remains tense. According to the US labour market report published on Friday, 140,000 non-agriculture-related jobs were surprisingly cut in December. The unemployment rate remained at 6.7 per cent.

Higher government debt likely to drive up interest rates

With the Democrats' extensive stimulus packages, however, the markets are also expecting higher government debt. This is likely to drive up inflation, but also bond yields and interest rates, which in turn could benefit banks. On the government bond market, yields on ten-year bonds recently rose above the one percent mark for the first time since March. Many bank stocks also initially reacted positively to the Senate election in Georgia.

On the other hand, there have been losses among technology stocks, because with a Democratic Senate majority under Biden, large tech companies also fear stronger regulations in the industry. In a report published in October, the House Antitrust Committee accused tech giants such as Amazon, Apple, Facebook and Google of abusing their market power. Democratic Senator Elizabeth Warren has already called for rigorous action against these corporations, up to and including possible divestiture.

With the change in power, changes in US trade policy are also on the horizon. Like Trump, Biden wants to support American manufacturers against foreign competition with his "Buy American" initiative. Unlike his Republican predecessor, however, he is likely to rely more on alliances with Europe to slow down China's rapid rise.

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A blog post by APA Finance together with Erste AM Communications.