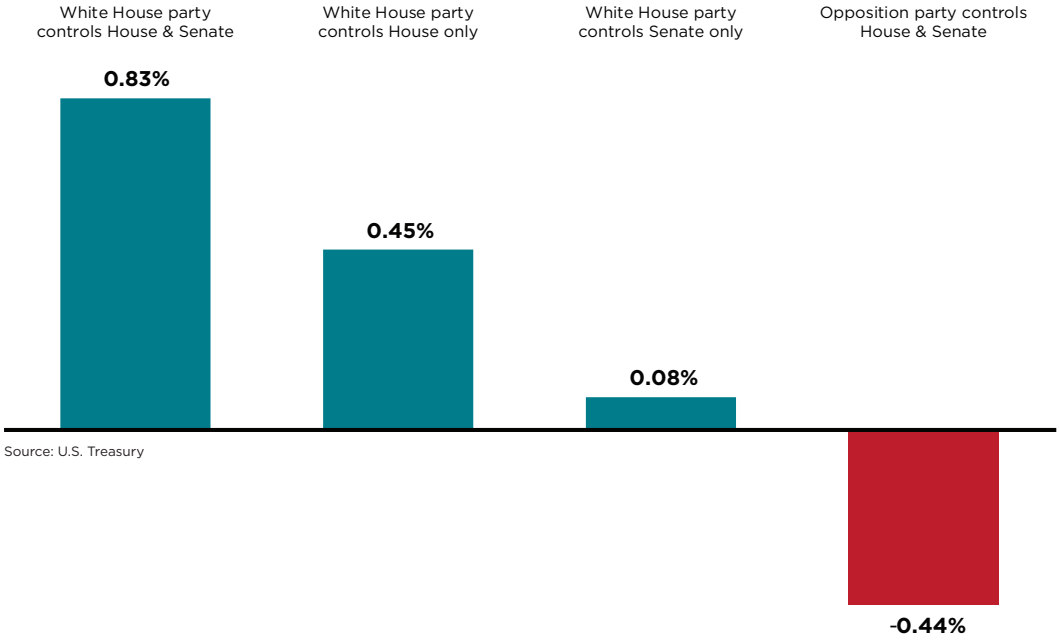
Presidential power shift does little to change the economic outlook.

Biden will have some scope for influence but the Fed remains the cyclical driver.

Average yearly changes in U.S. federal government budget outlays as a percentage of Gross Domestic Product (GDP)



Source: U.S. Treasury

The outcome of the 2020 presidential vote required more patience than previous election seasons, but now seems to be coming down to formalities. The change of executive office political power to Democrat Joe Biden heralds a shift in priorities for the White House. While a Biden presidency could mean sharp turns in trade, regulation, and social policies, the changeover should do little to alter the near-to-intermediate term path for the economy.

President-elect Biden will likely be hamstrung for at least the next two years by the probable split in Congress. (There is still a chance of single-party rule given pending run-off elections for two Georgia Senate seats, but the most likely scenario remains a Democratic House and a Republican Senate.) Typically, divided government results in fewer pieces of enacted legislation and, not coincidentally, slower rises in federal spending. Historically, federal government outlays have risen at a healthy clip during years in which one party has controlled the White House and both chambers of Congress, but have been much weaker during periods of split government. Additionally, the increasing tendency for legislators to vote along party lines likely means this dynamic will be pronounced in the years ahead.

This is not to say a Biden administration won't have an impact. The executive branch has de facto control over tariffs—a power President Trump used to launch a trade war against China, and one that Biden could just as well use to diffuse it. Biden criticized the trade

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war on the campaign trail, even while adopting a hawkish posture toward China more broadly, and explicitly indicated he would roll back the recent tariffs on European Union imports.

In addition, the new administration will have a large role in shaping the next fiscal stimulus package. While the final bill is unlikely to come in anywhere near the $4 trillion proposal Biden laid out this fall, it's now likely to include more aid to state and local governments and the unemployed than it would have under President Trump. Still, these policies shouldn't dramatically shift the trend of economic growth in the near term and are unlikely to be game changers for the sustainability of the expansion. The biggest changes are likely to come from regulatory policy changes, which tend to take several years to have material impacts on the economy.

While the president can heavily influence the long-run potential growth rate through fiscal, regulatory, and trade policies, the short-to-intermediate term trajectory is largely driven by the Federal Reserve. Note that, excluding COVID, real GDP grew at almost identical rates across the last two presidential terms despite the very divergent policies pursued by Presidents Obama and Trump. The common thread was a largely stable monetary policy, a stance that is very likely to continue. Perhaps the most consequential cyclical economic decision that President-elect Biden will make will come in just over a year when he (likely) appoints Jerome Powell to a second term as Fed chair.

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