

The Biden Administration's Geo-Economics

A CHALLENGE FOR EUROPE¹

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Abstract: On 20 January 2021, Democrat Joe Biden Jr. was inaugurated as the 46th President of the United States. Democrats now control the White House and enjoy majorities in both chambers of Congress, the House of Representatives and the Senate. However, they will not have a free hand to govern – as many political observers in Europe falsely expect. Because Democrats do not command of the qualified majority (of 60 votes) needed to avert blockades in the normal legislative process. Republicans will be able to block the Biden administration's ambitious legislative agenda with the same obstructionist strategy that prevented most of Barack Obama's initiatives. While many of President Biden's social and economic priorities – such as improving health care, the Green Deal, and tax increases – can be thwarted by congressional Republicans, there is a bipartisan consensus in the United States on foreign policy vis a vis rival states. The United States will continue to use economic resources for geostrategic goals – especially against China and Russia. America's geo-economics will also force its allies in Europe and Asia to think and choose strategically.

Bottom-line-up-front: The geo-economic rivalry between the United States and China will affect European interests and should as well give the Europeans reasons to think more geo-strategically. In order to improve its capacity to act and defend its interests and values, the European Union should move from the illusion of unanimity towards a more realistic consensus-finding in the form of qualified majority voting in foreign and security policy.

Problem statement: Given the obvious social and economic problems in the United States, European observers mistakenly expect the next US government to mainly focus on domestic issues and to neglect foreign policy.

So what?: Europeans should realize that Republican obstruction in the domestic field will lead the Biden administration to use its greater room for manoeuvre in foreign policy. The United States will continue to use their economic weapons against rivals such as Russia and China – which will also affect European interests.

INTRODUCTION – STATE OF PLAY

Democrat Joe Biden was elected president of the United States by nearly 80 million US voters, with far more votes than any other candidate before him. Despite fears of a contested election raised by his predecessor, Donald Trump, Biden was ultimately elected president on 14 December 2020 with a clear majority of 306 of the electoral college's 538 electors and was sworn in on 20 January 2021. With the new incumbent in the White House, many European political and economic leaders are pinpointing their hopes for a more predictable and for them more advantageous domestic and foreign policy of the world power. But even after the presidential and congressional elections, the political situation in the United States will remain difficult and volatile.

FURTHER POSSIBLE POLITICAL BLOCKADE

In the US political system, the legislature and the executive branches of government are more "separated" not only by various electoral acts. The system of "checks and balances" is also characterized by the fact that political powers compete with each other and hence control each other.² Thus, the US Congress does not automatically adopt the political agenda of the executive/president, even if, in the case of the current "unified government"³ when the White House and Capitol Hill are "governed" by the same party.

Democrats have retained control of the first chamber of Congress, the House of Representatives, but unexpectedly lost many seats and will have a smaller majority in the future. Since President Biden has nominated three Democratic lawmakers for executive posts – namely Cedric Richmond as Senior Advisor to the President and Director of the Office of Public Liaison, Marcia Fudge as Secretary of Housing and Urban Development, and Deb Haaland as Secretary of the Interior – the Democratic majority is likely to be even narrower until their seats will be replaced by special elections in Spring 2021. By then, Democrats will have only one or two seats more than the 218 votes necessary for the majority, depending on how quickly the nominees will be confirmed by the Senate for their Cabinet posts, and thus have to resign their congressional seats.

In the absence of a "blue wave", Democrats failed to win the more important second chamber of Congress, the Senate. They lost decisive races in Maine, Iowa and other states. But in the runoff elections in the state of Georgia, the Democrats still managed to win both seats. This allowed them to secure control in the Senate. With an even split

of 50 Democrats and 50 Republicans, Vice President Kamala Harris can cast the decisive vote to break a tie.

That makes it all the more difficult for the new Senate Majority Leader Charles Schumer to lead the Senate. In this chamber, a single senator with permanent speeches, a so-called "filibuster", can stop legislative business – as long as a qualified three-fifths majority of 60 senators does not shut him up. "To invoke cloture" is the maneuver to avert a "filibuster".

Since in November 2013 Democrats with their simple majority quickly changed the Senate's rules of procedure – opting for what Republicans called the "nuclear option" – blockades on personnel nominations can now be lifted with a simple majority. However, the normal legislative procedure is excluded. It still takes 60 votes to lift a blockade. That is why the Senate must provide incentives to satisfy as many as possible of all 100 senators. Pressure, on the other hand, would do little. Asked about the "power" of the Senate majority leader, former Democratic senator and "majority leader" George J. Mitchell replied, "You have the power to kiss 99 butts".⁴

More powers has "Madam Speaker of the US House of Representatives". House Speaker Nancy Pelosi has more resources to keep the albeit shrinking majority of her party in line: she can determine the chairmen of committees and subcommittees that are particularly attractive to interest groups and their campaign finance donations, decide through a procedural committee, the rules committee, whether and on which committees or subcommittees a legislative bill is being dealt with, and to what extent amendments are allowed. The rules of procedure are therefore used by the speaker as effective instruments of power. Nevertheless, because of the lack of party discipline, the speaker in the US House of Representatives does not have the enormous means of sanctions that a group leader has in a parliamentary system of government, as in Germany.

In the absence of party discipline, the president is also often urged to "buy" the support of members of Congress even from his own party with appropriate aid for the constituencies or individual states of the courted representatives and senators. As president, Biden will now have greater difficulties to maintain the unity of his Democratic Party. After Trump's removal from the White House, the external "enemy" is now missing, which helped to close its own ranks during the campaign. There are already tensions between progressives and moderates over who is responsible for the congressional losses – and, accordingly, a dispute over the Democrats' future course of government.

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Unsurprisingly, Biden assembled a cabinet that includes the various factions of his coalition, including progressive and moderates. Thanks to the Democrats' control of the Senate, the president's personnel decisions can be approved swiftly, without the Republicans' blocking options, thereby maintaining the Democrats' intraparty arithmetic.

However, in the absence of a Democratic supermajority in the Senate (60 votes out of 100), and the possible obstruction of Republicans in the normal legislative process, the comprehensive legislation on health care, tax reform, financial regulation, climate and energy policy, demanded particularly by progressive Democrats, is not to be expected.

To be sure, Biden has 36 years of work experience in the Senate and is known for his ability to work in a bipartisan manner. But his legislative cooperation and successes were a long time ago – they were at a time when consensus was still possible and was rewarded by voters and interest groups. A partisan Republican blockade of his legislative agenda could force President Biden to govern ad-hoc by executive order, without the long-term binding force of laws, as his two predecessors, Trump and Obama, did.

IMPACT OF THE POLICY BLOCKADE

The financial world was relieved that the future president would not be able to call all the shots. Stock markets reacted with price rises to the fact that there will be no Democratic-controlled legislator that could regulate businesses and raise taxes. However, a government that is limited in its ability to act is also a cause for concern, given the country's serious social and economic problems. Foremost, legislative action would be urgently needed to address the COVID-19 pandemic and its economic impact.

While there is reason to hope for an improvement since two companies, notably Moderna and Pfizer, announced coronavirus vaccines in November 2020, promising more than 90 percent efficacy in clinical trials. However, it will take many months for the vaccine to be distributed to people who are not classified as “highly vulnerable” because of their work, age and health conditions.

The human and economic losses of the COVID-19 pandemic are particularly severe in the United States. By the beginning of 2021, there were already more than 350,000 deaths caused by COVID-19. Because of the increasing number of confirmed cases, the Centers for Disease Control and Prevention

have recommended further restrictions on personal and economic life. The tightening of COVID-19 rules in many places, especially travel restrictions and shop closures, will continue to weigh on the US economy. The scale of the crisis so far is unprecedented: the pandemic has caused both a demand, supply and financial shock.

Given the dramatic socio-economic situation in the United States, a bill to provide COVID-19 economic relief for households and businesses was passed by Congress and signed by outgoing President Trump. Business leaders' calls for government support softened the previous blockade of Senate Republicans and averted Trump's veto threat. Looking ahead to the next midterm elections, which will already take place in two years, Democrats have equally strong incentives to create better conditions for economic recovery, especially now, with a Democrat in the White House. In this situation, a compromise was reached, in which fiscal conservatives agreed to a package of \$ 900 billion and Democrats, for their part, accepted previously rejected conditions, such as exempting employers from liability for COVID-19.

INFRASTRUCTURE AND TAX REFORM PLANS

The necessary response to the economic consequences of the coronavirus could also provide political backing for the adoption of an infrastructure package in the future. There is now a bipartisan understanding that many areas of the US infrastructure system need to be renovated and renewed. In addition to investing in roads and bridges, Biden's infrastructure plan covers water infrastructure and broadband access.

Infrastructure programs to mitigate the economic consequences of the COVID-19 pandemic could also serve as a legislative vehicle for the Biden administration to achieve at least part of its climate and alternative energy agenda. First and foremost, progressive Democrats will seek to allocate more resources to energy sector reform, electric vehicle systems, public transport, and thermal insulation of buildings.

But already in the past Trump years, fiercely contested funding debates in Congress have prevented a bipartisan agreement on infrastructure spending. By linking his infrastructure plan, worth more than \$ 2 trillion, to tax reform, his successor, Joe Biden, has made this formidable task even more difficult politically. During his presidential campaign, Biden promised to fund domestic spending programs through tax increases by repealing various components of the Tax Cuts and Jobs Act (TCJA). Still, Biden plans

not to raise income taxes for people earning less than \$ 400,000 a year, but to raise the corporate tax rate from 21 to 28 percent.

The Biden administration could also try to provide tax incentives to prevent companies from moving their operations abroad by levying a minimum corporate tax rate of 15 percent on book income. It could also seek to oblige those with an income of one million dollars or more to pay the same rate on capital gains as on salary.

While congressional Republicans would surely unite to prevent Biden-led Democrats from significantly raising taxes, Senate Republican Minority Leader Mitch McConnell would have a much harder time maintaining unanimity against a Biden stimulus program if stimulus was achieved primarily through middle-class tax cuts. The Republican blockade on public spending could also be softened if the Biden administration provides “pork barrel” incentives by directing government investment in states whose senators are needed for the vote count.

Biden has also sent protectionist signals, highlighting the role of American industry in the economic recovery. A four-year, \$ 400 billion “Buy American” plan aims to create more manufacturing jobs, focus federal funds on American companies, and prevent offshoring.

GLOBAL GEO-ECONOMIC RIVALRIES

Under the new president and Congress, not only the “Buy American” provisions will be pursued. The United States will continue to apply (secondary) sanctions to force its allies to buy “freedom gas”, for example. As early as December 2019, the US Congress, with bipartisan support, passed the so-called Protecting Europe's Energy Security Act (PEESA). The law initially halted the construction of the Nord Stream 2 pipeline, which was supported by the German government, because the sanctions targeted the operators of the special ships that laid the pipes for the pipeline. With the budget authorization for the US Department of Defense, the National Defense Authorization Act (NDAA), the US Congress gave the next US president the authority to impose even further sanctions on active supporters of the project. The decision provides for punitive measures both against insurers of companies and ships involved in the further construction of Nord Stream 2 and against technical certification companies.

The United States will continue to argue from a geopolitical point of view that this pipeline would make US allies such as Germany

dependent on Russia. That is why political and economic decision makers need strategic patience and the longer breath of better economic and geostrategic arguments: America's short-sighted geo-economic action against the main competitors in the international oil and gas markets – be it Saudi Arabia, Russia, or Iran – is not only at the expense of the economic interests of allied countries like Germany. It harms the United States itself in the long run and helps its global rival, China.⁵

The geo-economic rivalry between the United States and China is going to be reinforced by the Biden administration. The next US government will continue to manage or manipulate data, trade, energy, and financial flows, especially through (secondary) sanctions. The game of forces in “free” markets will continue to be politically undermined by the United States and will only be accepted as long as it serves the political goal of geostrategic dominance.

The conflict between the United States and China is mainly fought in the technology sector. On the 5G/Huawei conflict issue, the United States will remain relentless with its allies. In the struggle for technological spheres of influence, in which future economic and military dominance is at stake, Washington will increase pressure on third countries such as Germany and its companies and put them before the choice of either disclosing business with China or the United States.

TURNING TO ASIA

America's “Pivot to Asia” course already taken under the Obama/Biden administration, will continue – again at the expense of the Transatlantic Trade and Investment Partnership (TTIP). For President Obama and then Vice President Biden, to the annoyance of Europeans, the Trans-Pacific Partnership (TPP) initiative was more important, with which they intended to contain China in trade policy and take economic toll on its allies.

ENDNOTES

1. This article elaborates on a previous publication: Josef Braml, “Amerikas Geo-Ökonomie unter Biden – Europas Risiken und Chancen,” ifo-Sch nelldienst 1/2021: 28-32.
2. Richard E. Neustadt describes the US political system as a „government of separated institutions sharing powers“. Charles O. Jones specified Neustadt's idiom: „separated institutions sharing and competing for powers“. Richard Neustadt, *Presidential Power and the Modern Presidents: The Politics of Leadership from Roosevelt to Reagan* (New York – Toronto: The Free Press, 1990), 29; Charles O. Jones, *The Presidency in a Separated System* (Washington, D.C.: Brookings Institution Press, 2nd ed., 2005), 24.
3. James L. Sundquist, “Needed, A Political Theory for the New Era of Coalition Government in the United States,” *Political Science Quarterly*, 103 (4): 613-635; Weaver & Rockman also differentiate “regime types”: Weaver, Kent R. Weaver, Bert A. Rockman, “Assessing the Effects of Institutions,” *Political Science Quarterly*, 103 (4): 1-41.
4. Ross Baker, *House and Senate* (New York – London: W.W. Norton & Company, 4th ed., 2008), 91.
5. Josef Braml, „Transatlantic Action Plan: Energy Policy and Climate Change“, Nicholas Burns et al. eds, *Stronger Together: A Strategy to Revitalize Transatlantic Power* (Harvard Kennedy School: Belfer Center for Science and International Affairs) December 2020. <https://www.belfercenter.org/publications/stronger-together>