

## Deliberations over a large-scale budget proposal have run into rough waters due to opposition

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A bill that raises the US federal government debt ceiling was passed by the House and Senate in early October, which means the US will likely avoid defaulting on its debt until early December.

Although it is not uncommon for discussions by Congress about raising the upper limit for government debt to be rough going, one of the reasons for the difficulties this time is the large-scale budget proposal (Table 1) that the ruling Democratic Party is trying to pass. The opposition Republican Party pushed back against the proposed budget because it would significantly increase government expenditure (USD 3.5 trillion over 10 years). Based on this, they also disagree with raising the debt limit. The Republican Party finally cooperated and agreed to raising the debt ceiling this time, but the Senate Republican Leader wrote to President Biden saying Republicans would not cooperate next time. It is expected that the Democratic Party will be forced to pass both the budget and bill to raise the debt ceiling by itself. \*

Complicating the situation are objections to the large-scale budget raised from within the Democratic Party (Table 2). First, Senators Sinema and Manchin, who are moderates in the party, said they oppose the scale of expenditures which they see as excessive. There is also opposition to individual items, such as raising corporate debt and lowering the cost of medicines as ways to fund the increase in expenditures. House Democrats from states which produce a significant amount of natural gas are resisting the plan to exclude natural gas from the Clean Electricity Payment Program. At present, there is close competition between both the two parties in terms of the number of seats they hold in both the House and Senate. In the Senate in particular, the Democratic Party alone is unable to pass a bill if just one of its members opposes it.

Under these circumstances, President Biden announced the framework for His Build Back Better Agenda and Bipartisan Infrastructure Bill on 28<sup>th</sup> October, which would increase government spending by USD 1.75 trillion (over ten years). Although the bill is expected to be more moderate and smaller in scale than originally proposed, the passing of the bill may still affect the result of the mid-term elections next year. It seems that the capabilities and computational skills of President Biden, a veteran in Congress politics, will be put to the test during this time.

\*In the Senate, approval from 60 of the 100 members is needed to terminate deliberations on a bill. However, if the budget reconciliation measure is used, a bill can be passed with agreement from the majority without voting to end deliberations. Currently, both the ruling party and opposition have 50 seats in the Senate, but the Democratic Party will be able to pass a bill alone since the President of the Senate (Vice President Harris of the Democrats) holds the right to vote in the event of a tie.

Table 1: The Budget Proposal FY2022

Outlays and revenues	Details		Amount (USD tr)
Outlays	Support for workers	<ul style="list-style-type: none"> <li>Child Tax Credit extension</li> <li>Expand access to nursery and preschool education</li> <li>Establish paid family and medical leave</li> </ul>	3.50
	Addressing climate change	<ul style="list-style-type: none"> <li>Incentives for energy companies to invest in clean energy</li> <li>Reduce carbon emissions and prevent wildfires</li> <li>Rural development and rural co-op clean energy investments</li> </ul>	
	Housing	<ul style="list-style-type: none"> <li>Creation and preservation of affordable housing</li> <li>Down payment and rental assistance</li> </ul>	
	Education	<ul style="list-style-type: none"> <li>Tuition-free community college</li> </ul>	
	Health	<ul style="list-style-type: none"> <li>Expanding Medicare and lowering the eligibility age</li> </ul>	
Revenues	<ul style="list-style-type: none"> <li>Corporate and international tax reform</li> <li>Tax fairness for high-income individuals, IRS tax enforcement</li> <li>Health care savings</li> </ul>		Min 1.75
Increase in the fiscal deficit			Max 1.75

Source: Senate Democrats, MUFG Bank Economic Research Office

Table 2: Opposition to the Budget Proposal from within the Democratic Party

Areas and topics of disagreement	Situation
Scale of outlays	Senators Sinema and Manchin announced they do not support a budget as large as USD 3.5 trillion. Manchin gave an upper limit of USD 1.5 trillion.
Raising corporate tax	President Biden proposed raising it from 21% to 28%, but Senator Manchin supported raising it to 25%.
Lowering medicine costs	Three members of Congress opposed inhibiting innovation by pharmaceutical companies.
Addressing climate change	Democratic members of Congress proposed subsidiaries for energy companies that had achieved the target to move to clean energies (excluding natural gas). Senator Manchin and six members of Congress from Texas opposed the exclusion of natural gas. In addition, Senator Manchin insisted on loans rather than subsidiaries as financial support.
Medicare	Senator Manchin said the existing system should be stabilised before expanding Medicare.
State and local taxes	Members of Congress from states with high tax rates, like New York and New Jersey, pressed for a restoration of the State and Local Tax Deduction (USD 10,000).

Source: Various news reports, MUFG Bank Economic Research Office

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