

WEEKLY ECONOMIC COMMENTARY

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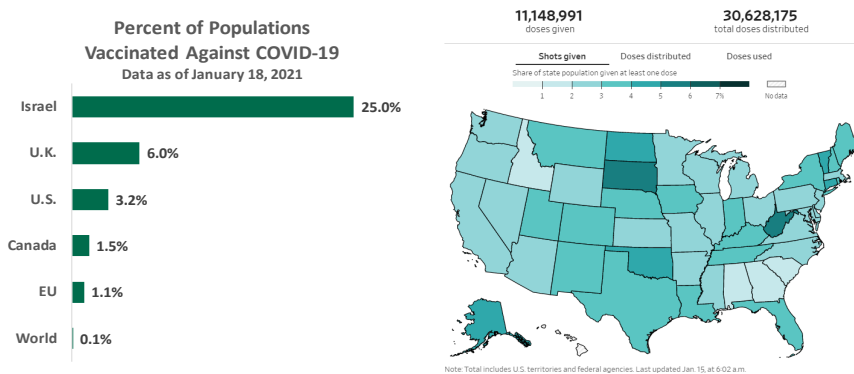
- **Vaccination Programs Need a Shot in the Arm**
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Most of the time, supply and demand eventually balance. But when frictions interfere, you can end up with too much of one or the other.

Such is currently the case with vaccines against COVID-19. In some parts of the world, there is an ample supply of doses, but program frictions are preventing them from being fully dispensed. And in other parts of the world, supplies are inadequate or nonexistent. These imbalances will have an important influence on economic performance this year, and potentially longer.

The pandemic remains the most important factor in the global economic outlook. Nations that cope with it sooner and more effectively will recover more rapidly. Those that cannot contain it will lag.

Global policy makers have provided substantial fiscal support to deal with the economic symptoms of COVID-19: job displacement, small business failure, and impairment of key industries. Funds for health care have also been part of many stimulus packages, but they have been primarily aimed at caring for those already sick. The root cause of the crisis—the spread of the virus itself—has not received sufficient funding and attention.



Sources: Our World in Data, Centers for Disease Control and Prevention, Wall Street Journal

As a result, vaccination programs around the world are off to a slow start. The excitement surrounding innovations in the laboratory has given way to anxiety over logistics. Production of doses does not seem to be the problem: nearly a dozen vaccines have been approved for usage in various parts of the world, and projections for this year suggest providers will manufacture more than enough to cover vulnerable populations.

But getting the doses to the proper places and into populations has proven problematic. Some countries arranged in advance for an allocation of vaccines, often offering capital for development in exchange for supply. Others have had to scramble for access, paying higher prices or settling for alternatives that aren’t as proven.

Global Economic Research
50 South La Salle Street
Chicago, Illinois 60603
northerntrust.com

Carl R. Tannenbaum
Chief Economist
312-557-8820
ct92@ntrs.com

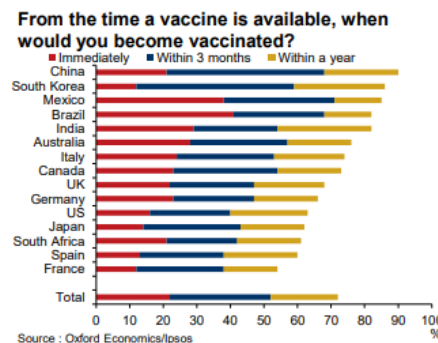
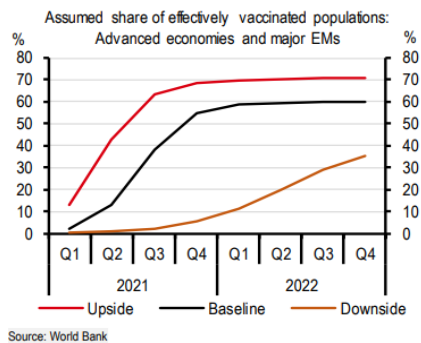
Ryan James Boyle
Senior Economist
312-444-3843
rjb13@ntrs.com

Vaibhav Tandon
Economist
630-276-2498
vt141@ntrs.com

Once secured, supplies must be distributed based on public health priorities. In the United States, there are recommended national standards, but states can amend them. At-risk citizens (like health workers and the elderly) are usually first in line, but the hierarchy gets muddier after that. The polymorph of criteria has created confusion and even “vaccine tourism.”

Many areas have struggled to organize facilities to perform vaccinations, and to secure sufficient personnel and material to complete the process. (Shortages of nurses and needles are not uncommon.) Some locations have scrambled to start waiting lists to use up doses at risk for spoiling. Tracking systems that will be critical to monitoring outcomes have been hastily assembled. Proof of vaccination may become a kind of a passport for entry to restaurants, performances, and airplanes, so a strong registry will be essential.

Successful vaccination is the best economic recovery plan.



There remain factions of the global public that are hesitant to receive inoculation. Resistance should decline as programs proceed without incident. But a subset may remain reluctant to receive this (or any) vaccine. Medical experts suggest that more than 80% of a population will need to be covered before “herd immunity” is established; this level will not be attained unless the public collectively becomes more comfortable.

Crossing that threshold will allow countries to durably relax restrictions on domestic commerce and travel. International travel, however, will likely remain constrained by the absence of a global vaccination database and incomplete trust of the products used in some other parts of the world.

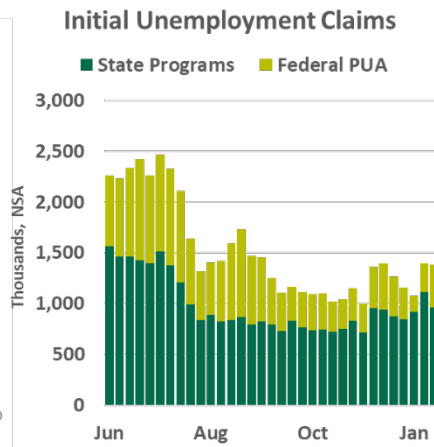
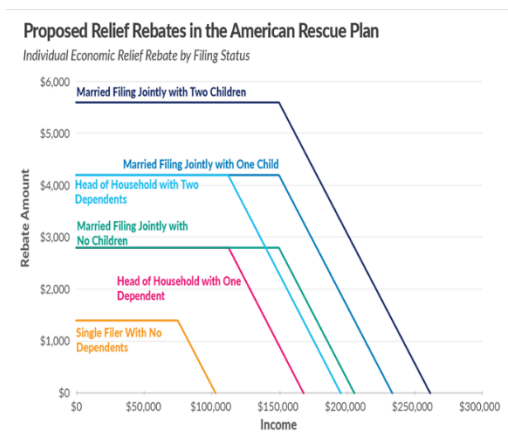
Many emerging markets have limited access to vaccines, and will therefore be living with the virus for much longer. Pernicious mutation will still be possible in many areas, and could be exported from there. The head of the World Health Organization has therefore urged developed countries to help head off this outcome by providing doses and aid to countries that need it.

Vaccination was always going to be a tremendous operational challenge, and obstacles are understandable. But a successful inoculation program is the best economic stimulus that any government can provide. We can’t afford to get stuck.

Go Big or Go Home

A week before taking office, President Biden announced the American Rescue Plan, the administration’s opening gambit in the next round of stimulus negotiations. With a headline value of \$1.9 trillion, the package rivals the historic CARES Act in its size and scope. Even if only partially enacted, this next round of stimulus can provide powerful help to the U.S. economy.

The proposal picks up where prior stimulus leaves off. The supports and protections passed in the CARES Act in March 2020 have largely expired. As 2020 drew to a close, Congress agreed to a \$900 billion set of limited supports, including a \$600 one-time means-tested economic impact payment, three months of \$300 weekly unemployment insurance supplements, a new round of forgivable Paycheck Protection Program loans for small businesses, and an additional month of eviction restrictions.



Sources: Tax Foundation, Department of Labor, Haver Analytics

The size and duration of the latest fiscal proposal may carry the nation past the crisis.

Biden’s new plan includes funding to furnish more vaccination centers, expand testing and hire more public health workers. As discussed above, faster and wider distribution of vaccines will be the most important economic stimulus that can be undertaken this year, and every dollar spent will earn a rapid return. These provisions will find ready bipartisan acceptance. The proposal also includes funds to help schools reopen safely and offers more paid sick and family medical leave.

In the full text of the proposal, the Biden administration repeatedly refers to the late 2020 action as the “December down payment” of stimulus, adding to what that bill started. Its largest component is \$1 trillion of supplemental relief to households. The bill would add a round of \$1,400 direct payments to individuals, increase unemployment benefit supplements to \$400, and extend special unemployment programs through September. The measure also seeks to extend eviction protections through September, providing assistance to tenants and landlords until then.

These protections can lead to some generous outcomes. Married households with two children, earning up to \$150,000, would qualify for a hefty payment of \$5,600. The majority of last year’s economic impact payments were saved or used to pay down debt, and with commerce still restricted, this would likely foster another round of saving. More aggressive income indexing or redirection toward other supports might produce a more immediate boost to demand, and could help to motivate bipartisan support.

Beyond households, Biden has proposed approximately \$440 billion in support to businesses and local governments. The largest share of this will help ensure state and local bodies can continue to provide essential services and to expand COVID-19 testing and vaccine distribution sites.

Portions of the proposal are likely non-starters, as they would effectively require 60 votes for approval, including contentious ideas like a higher national minimum wage. The Senate’s rules allow spending measures to be passed with a simple majority through budget reconciliation, a process that will be put to the test with this legislation. Direct payments, unemployment supplements, nutrition support and tax credits are revenue measures that are in scope for

reconciliation; aid for schools, states, family leave and rent relief are more discretionary measures that could face procedural challenges. These machinations will likely leave the final proposal in the vicinity of \$1 trillion, bringing the total U.S. fiscal response to \$4 trillion. This is an extraordinary sum for an extraordinary challenge.

Biden's proposal has not yet been presented as a bill to the new Congress. Most of the stimulus provisions passed in December were only renewed through March; this short timeline will force action on the proposal. While some may object to sizeable spending, recently elevated unemployment claims illustrate that the impacts of COVID-19 remain a force to be reckoned with. As Treasury Secretary nominee Janet Yellen testified this week, failing to respond aggressively to the crisis could render future stimulus ineffective and leave the country worse off.

News coverage this week focused on the political changes in Washington, but the virus and its effects are nonpartisan. With vaccinations ramping up, the end of the crisis appears to be in sight. One more round of stimulus will help make this vision a reality.

Hard Sell

American actor Will Rogers once said, "The farmer has to be an optimist, or he wouldn't still be a farmer." Farmers face challenges from weather, markets and accidents, gambling their fortunes every growing season. While occasional mishaps may only temporarily dent their confidence, misguided and outdated farm policies can have a lasting impact. Many agricultural policies continue to distort farm production and trade and are not effective in achieving desired objectives.

Agriculture is not only vital to food security, but also represents a sizeable share of several nations' gross domestic product (GDP). As a result, farmers carry significant clout. Even though the share of agriculture in a number of world economies' output has been diminishing over recent decades, it is still the economic backbone for almost all nations. Farming accounts for more than 25% of total global employment and 25% or more of GDP in low-income countries.

The political significance of the farm sector and the potential dislocations that could result from reforming it have always made agriculture hard to manage. Hence, the structure of farm programs has not changed much for several decades. Most countries continue to provide generous support to rural incomes. This can take the form of input subsidies (particularly for fertilizer and fuel), preferential access to credit and/or mandated minimum prices. Tariffs and quotas on agricultural products are also widely used to shield domestic farmers from global competition.

Agriculture is possibly the most heavily protected and subsidized economic sector in the world, with governments worldwide providing over \$600 billion annually in recent years, up from over \$300 billion in the early 2000s. Unfortunately, the inefficiencies created by agricultural support systems can be immense, with costs borne by taxpayers and consumers.

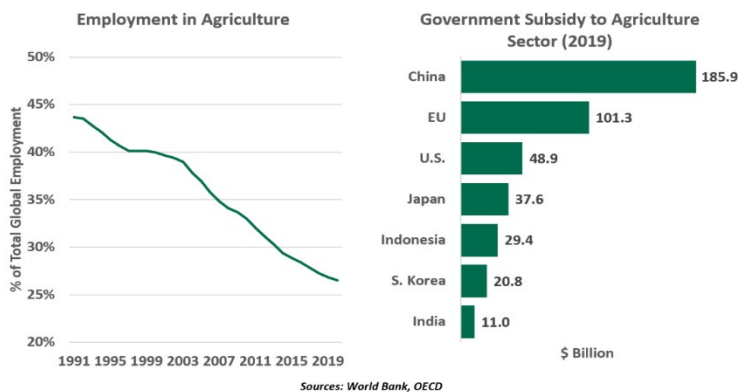
India serves as a perfect example. Indian farmers, who make up about half the country's workforce, are protesting the government's new farm laws that aim to deregulate markets, eliminate intermediaries and support the private sector. While inefficient, the current system protects rural incomes; as a result, hundreds of thousands of Indian farmers have protested in the nation's capital for several months.

Agriculture subsidies tend to distort trade. At the 2001 World Trade Organization (WTO) Doha Round, developing economies like China and India criticized the use of agricultural subsidies in the U.S. and Europe, arguing that high subsidies in developed nations drove global crop prices down and undermined their small farmers.

Farming represents a shrinking share of GDP, but its importance to politics is undiminished.

Two decades later, China now offers the world’s most generous subsidies to its farm sector. Like China, the U.S. was unmoved by the complaints from its trading partners: last year, the U.S. government funneled record subsidies to farmers reeling from both the pandemic and from the impact of tariffs on American agriculture exports.

Agricultural products have been the basis of disputes in several trade negotiations and the subject of complaints to the WTO. Canada’s dairy and Mexico’s tomato subsidies were key sticking points in the recently concluded U.S.-Mexico-Canada Agreement. Brexit trade negotiations stalled for a time over EU subsidies for farmers. In 2019, Brazil, Australia and Guatemala dragged New Delhi into the WTO’s dispute settlement mechanism over India’s subsidies to its sugar industry.



Agriculture is a frequent target of trade negotiations.

Rising trade barriers globally are a cause of worry for farmers in the targeted nations, who may seek more support for the flow of agricultural commodities. That said, trade tensions could bring a positive outcome for the farm sector by reviving efforts to reform the least effective practices.

The intentions behind farm supports are not misplaced. They help farmers produce sufficient quantities, acquire modern farming tools and achieve protection from price volatility. Those pitching radical reforms should be aware that reducing support and opening borders to agricultural imports too soon may leave domestic sources undeveloped and uncompetitive.

That said, some transformation of the agriculture sector will likely create jobs, raise incomes, reduce malnutrition, and put economies on a path to higher income growth. Improved farm practices will also help in combating climate change. But if reforms are to avoid disruption of the food supply and bitter resistance from rural interests, they must be designed to make the transition manageable. As the leader of India’s Green Revolution observed: “If agriculture goes wrong, nothing else will have a chance to go right.”

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@NT_CTannenbaum

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