June 2021
Newsletter

Introduction

As economies around the world begin to reopen and markets resume some semblance of normality, US President Joe Biden has already put forward his next major spending plan, this time aimed at American Infrastructure.

America's Infrastructure Plan

In late March US President Joe Biden met with White House Officials to discuss the state of the nation's infrastructure and the need for a serious overhaul. This came on the back of the C-score recently earned from the American Society of Civil Engineers which acknowledged that the nation's infrastructure is in desperate need of repair, with an estimated $2.6tn in funding required over the next decade. At the meeting which took place at a training centre for carpenters in Pittsburgh, President Biden laid out a $2tn plan to repair and upgrade the nation's infrastructure. This plan has subsequently been revised to the level of $2.3tn with spending expected to take place over the course of the next eight years.

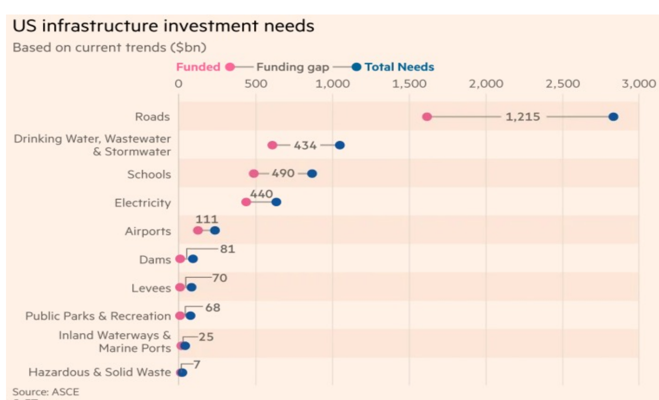
This Infrastructure Bill is expected to be funded predominantly through an increase in corporate tax rates to the degree of $2tn, which is expected to generate enough revenue to pay for the investment within the next 15 years. To put this mammoth financing plan and subsequent tax increase into perspective, if one were to stack two trillion $1 bills on top of each other, the pile would reach about 220,000km into the sky, around two-thirds of the way to the moon. Put another way, if you laid out a line of two trillion $1 bills end to end and had a military jet fly over at the speed of sound, it would take 28 years for the jet to fly past!

The infrastructure plan forms the first half of what is expected to be a two-part rollout of Biden's strategy to upgrade the economy and bolster American capitalism. The Biden administration has christened the proposal the "American Jobs Plan" and aims to provide long-term employment for the majority of the nation's unemployed citizens while reinvigorating and improving the nation's ailing networks. The second part of Biden's investment scheme, possibly worth a further $1tn, has presently been named the "American Family Plan" and is intended to focus specifically on childcare and education in order to further bolster the country's safety net.

According to a Morning Consult poll released in early April, 54% of Americans and 73% of Democrats are in support of the proposed infrastructure bill, even when coupled with the higher corporate taxes it will effectuate.

US Infrastructure Investment Needs

The fund aims to modernise 20,000 miles of roads, create a network of half a million electric vehicle chargers by 2030 as the nation moves to greener energy consumption and looks to reduce emissions, replace powerlines, plug oil and gas wells, and clean up abandoned mines, among other maintenance and renovation projects. Emily Blanchard, a Business professor at Dartmouth College, stated, "When we talk about the competitive position of the United States going into the next decade, the next half-century, public investment is critically important. The US has basically been coasting along on a wing and a prayer, juicing every last bit of juice out of very, very old infrastructure, because there hasn't been a serious public works investment in a long, long time."



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Proposed Tax Increases

In order to fund the bill, corporate tax rates are expected to be raised to 28% from their current level of 21%, a move that would somewhat reverse the tax cut brought about during the Trump presidency. This increase would still prove lower than the tax rate under the Obama administration, and would be fully phased in over a period of 15 years. Biden has singled out selected blue-chip companies such as Amazon for not paying enough corporate taxes and has made it quite clear that his plan is intended to benefit the middle class population, not those in high-powered positions on Wall Street.

Coupled with the intended increase in Corporate tax rates, President Biden in mid-April stated his plan to roll out a series of tax increases on the wealthy, the most far reaching of which will include a near-doubling of taxes paid for capital gains and dividends. The proposed tax reform will see capital gains and dividend taxes nearly double, increasing from their current level of 20% to a rate of 39.6%. When combined with Obama-induced surtax on investment income related to his healthcare reform, this will have the effect of increasing the US capital gains and dividend tax rate to 43.4%. The tax increase will be applied ubiquitously to all Americans earning over $1m a year. Despite the Biden administration assuring investors that the proposed plan will only affect the top 0.3% of tax-payers in the US, the planned tax increase has been hit with a heavy backlash from top investors who have dubbed it “insanity” and said that it might “kill the golden goose of America”. Private Equity executives and Technology investors could be among those hit hardest by the tax increases. These investors earn the majority of their income from profits on funds managed for outside investors, called “carried interest”. These carried interest payments are generally taxed at the lower capital gains rate as opposed to the income tax rate. With the launch of Biden’s new tax plan that opportunity could disappear, leading to lower realised income for these investors.

Despite the kick-back, many Democrats and Biden officials have said that the tax increases are long overdue and are consistent with Joe Biden’s key pledges in his 2020 presidential race against Donald Trump.

Clean Energy

Throughout the plan Biden has pledged to tackle climate change and encourage the use of green energy. The increased spending on research and development is expected to advance the usage and reliance on green energy and to make existing buildings and structures more energy efficient. The primary focus of the climate change initiative brought about through the infrastructure plan is to modernise and transform cars and electric power plants; the two largest sources of greenhouse gas emissions within the United States.

The plan proposes to put $174bn towards the development, manufacture, and purchase of electric vehicles. This looks to be achieved by granting tax credits to companies producing electric vehicle batteries within the US as opposed to China. The goal is to reduce the price of locally produced electric batteries, and consequently the price of electric cars which today comprise only two percent of the vehicles on American roads.

This encompasses the creation of a “Clean Energy Standard” which will effectively serve as a federal mandate which will require that a certain percentage of electricity be generated by zero-carbon sources of energy (eg. Wind, solar, and potentially nuclear power).