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Road Work Ahead! - The American Jobs Plan & Made in America Tax Plan

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The American Jobs Plan is a set of proposals laid out by the Biden Administration that would spend $2 trillion over eight years with goals of rebuilding infrastructure, renewing domestic manufacturing and supply chains, creating millions of jobs, fighting climate change, and positioning the U.S. to out-compete China, while also advancing portions of the Democrats' social agenda along the way. It will be up to members of Congress to take the President's proposals and craft a final piece of infrastructure legislation and/or to roll portions of the recommendations into other legislation also under consideration. As noted in the companion write-up of the American Families Plan, the two plans could ultimately be combined into one and passed through reconciliation.

The key attributes of the American Jobs Plan include $621B in transportation infrastructure; $311B in water, electric utility, and broadband infrastructure; $378B in home and building construction, modernization, and retrofitting; $180B in R&D; $400B in manufacturing revitalization and workforce development; and $400B in community and home healthcare.

The case for better infrastructure

According to the World Bank, the United States infrastructure system now ranks 13th globally. Public investment in new core infrastructure (roads, bridges, transportation facilities, power networks, and water systems) as a percentage of GDP has been declining for almost 50 years, and the American Society of Civil Engineers (ASCE) in its 2021 Annual Infrastructure Report Card finds that continued underinvestment in infrastructure could cost the United States economy $10.3 trillion in lost GDP growth through 2039. Research and Development (R&D) spend has also declined over the last 25 years and based on current trends China either already has or soon will surpass the U.S. in total R&D spend even without adjusting for China's smaller GDP[1].

Where will the money come from?

To pay for the plan, the Biden administration has advocated for an increase in corporate taxes. The proposed changes to the corporate tax code are estimated to bring in a similar $2 trillion but over 15 years. The tax portion ("Made in America Tax Plan") calls for the statutory corporate tax rate to increase from 21% to 28%, accompanied by an Alternative Minimum Tax rate of 15% (on "book incomes") targeted at large corporations which report high profits to investors but little in the way of taxable income. President Biden also seeks to double the Global Intangible Low-Tax Income (GILTI, a minimum tax on foreign earnings) rate to 21%, and also to remove certain loopholes in order to reduce the incentive to offshore jobs.

Prospects for passage

Although infrastructure spending has an element of bipartisan agreement, tax increases do not. A group of Senate Republicans have subsequently proposed an alternative plan of $586 billion (over five years) that would be paid for by "user fees" on transportation users and repurposing existing funds that Congress has already approved. Many Democrats in Congress rejected this Republican proposal outright, but West Virginia Senator Joe Manchin – the crucial Democratic swing vote in the Senate – referred to this Republican proposal as a starting point for negotiations. Senator Manchin has also said that he wants to see a bipartisan bill, that he supports raising corporate taxes only to 25% rather than 28%, and does not want to approve a bill via budget reconciliation – a process that avoids Senate filibuster if fewer than 60 Senators are on board. While not all of these points are necessarily "hard lines" for Senator Manchin, it is important to keep in mind that he has a strong history of seeking and promoting bi-partisanship, and that he is a Democratic Senator from a state that Trump won by a whopping 39% (69% for Trump vs 30% for Biden) in the recent presidential election.

At the end of the day, the odds still appear to favor getting a major infrastructure package completed sometime this year, but perhaps with modifications from President Biden's original proposal. The multi-year nature of infrastructure investments does not provide a large, immediate jolt to spending but it does increase the prospect of the cyclical upturn lasting further out into the future. Our expectation of a large infrastructure package being passed by year end also supports our recommended allocations to U.S. Small Cap equities which tend to have a greater cyclical component.

[1] https://www.nature.com/articles/d41586-020-00084-7

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