Key Private Bank

Key Questions

April 19, 2021

What's in President Biden's Infrastructure Plan?

Ather Bajwa, CFA®, CPA, Senior Analyst

On March 31, President Biden unveiled the first half of the administration's infrastructure plan by announcing that "it is a once-in-a-generation investment in America, unlike anything we've seen or done since we built the interstate highway system and the space race decades ago."

The American Jobs Plan would spread nearly $2.3 trillion over eight years, split between traditional blue-collar infrastructure projects and green initiatives.

What Is Infrastructure Anyway?

Infrastructure is a general term used to describe critical integrated physical structures, services, and systems necessary for countries, households, and businesses to function. Infrastructure is typically composed of long-lived, systemically important public and private assets that cover various sectors, including transportation, energy, utilities, communications, and social/community services. Infrastructure is broadly divided into two types: hard and soft. Hard infrastructure refers to physical resources such as roads, ports, and wireless towers. Soft infrastructure refers to human development and the services essential to quality of life, such as education, recreation, and hospitals.

Policymakers on both sides of the aisle agree that US infrastructure, once the envy of the world, has fallen behind much of the rest of the world and that something needs to be done. One of President Trump's key promises during his 2016 campaign was a $1 trillion infrastructure plan that was going to "fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals." President Biden's plan is bolder than any we have seen since the 1956 Federal-Aid Highway Act. It encompasses almost all aspects of infrastructure, with an emphasis on social-capital and climate-change-related projects.

The Plan

President Biden's proposal is divided into four large categories: $621 billion toward transportation infrastructure, $689 billion for social/community infrastructure, $580 billion toward research and development (R&D), and $400 billion for eldercare.

Most of the $621 billion transportation pledge is geared toward traditional initiatives such as overhauling 20,000 miles of roads and improving 10,000 miles of bridges. $174 billion of the transportation spend is earmarked for investment in electric vehicles (EVs), including incentives to encourage their adoption and building public charging stations. The proposal also includes doubling federal funding for public transportation to $85 billion, primarily to modernize existing transit.

In the case of community infrastructure, the largest allocation ($213 billion) is for improving buildings, including replacing lead pipes for nine million households and improving public schools and childcare facilities. $100 billion is to be spent on improving US high-speed broadband infrastructure, and another $100 billion would be directed toward strengthening the country's electric grid.

The $580 billion R&D plan includes major clean energy initiatives ($180 billion), manufacturing ($300 billion), and workforce development ($100 billion).

The Taxman Cometh

To pay for the infrastructure plan, the administration has proposed the Made in America Tax Plan, which will seek to raise approximately $2 trillion in additional revenues over the next 15 years. Most of the increased revenues will come from raising the corporate tax rate from 21% to 28%. Also, the president wants to boost the global minimum tax paid by US multinationals to 21% and negotiate a global minimum tax rate of 15% on corporate book income to disincentivize corporate inversions and offshoring.

Threading the Needle

President Biden's American Jobs Plan is more than twice the size of the American Recovery and Reinvestment Act (passed in 2009), the last federal program to target infrastructure improvements. As the plan currently stands, it represents the third major stimulus effort in less than four months and would account for approximately 10% of GDP. Infrastructure spending is popular among both the American people and Washington. However, given the size of this package and the proposed tax increases, it is unlikely to garner bipartisan support in Congress or receive the full backing of the business community.

If approved, the American Jobs Plan would be a windfall for traditional industries like energy, construction, medical equipment, commodities, and technology-focused manufacturers like cell towers, battery manufacturers, and broadband purveyors. Clean energy is another area that will benefit.

A combination of tax credits and manufacturing incentives provides unprecedented support for clean energy companies, EVs, and green technology manufacturers. Similarly, the strategy provides significant benefits to healthcare — particularly managed-care providers — through increased Affordable Care Act subsidies, Medicare expansion, and increased spending to improve senior living.

Over the past several years, real assets (physical assets such as real estate, commodities, and energy) have been overlooked by investors as technology-related themes have garnered considerable public and private focus. When it comes to broadband, cellular technology like 5G, EVs, and much else, the US lags much of the developed world. In many ways, the plan will only bring the US closer to many of its peers and competitors like China. The administration's spending priorities appear likely to provide much-needed impetus to a neglected sector of the economy and could lead to an infrastructure supercycle. For these reasons, we continue to recommend that investors should incorporate real assets into their portfolios, a potentially potent enhancement to traditional asset classes such as stocks and bonds.

For more information, please contact your Key Private Bank Advisor.

Key Private Bank

Publish Date: April 19, 2021