



HOUSE VIEW

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JOE BIDEN AND THE MYTH OF TANTALUS

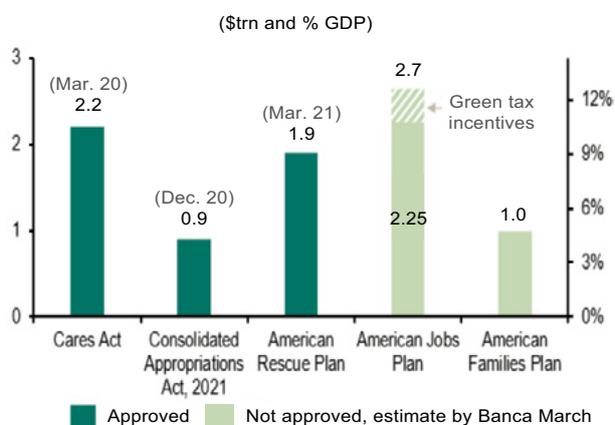
JOE BIDEN AND THE MYTH OF TANTALUS

Like a banquet of nectar and ambrosia fit for the Gods of Mount Olympus, the feast of stimulus measures continues to flow unabated. At the beginning of the month, Joe Biden launched the second phase of Build Back Better, the American Jobs Plan. This infrastructure reconstruction and development plan is worth 2.7 trillion dollars (2.3 trillion in investment and 400 billion in tax credits for clean energy) and will be rolled out over the next eight years.

Not even 100 days into the job, the new President - with the superpowers that come from controlling both houses of Congress - continues to deploy state funds and uphold his electoral campaign promises.

1. US GOVT STIMULUS MEASURES SINCE COVID

Sources: The White House and Banca March



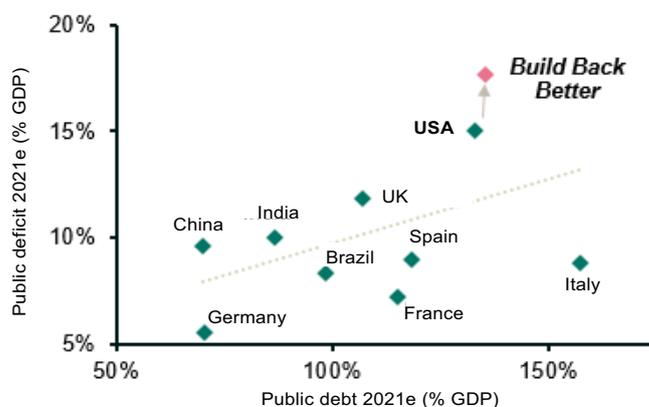
Biden's *Build Back Better Plan* comprises three programmes – the 1.9 trillion-dollar fiscal package launched in March, the new infrastructure plan and the *American Families Plan*, to be launched imminently – and is the latest burst of power delivered to the US economy; since the Covid outbreak, US government stimulus measures have totalled over 25% of GDP.

This is, unquestionably, positive news that will allow the US to spearhead the post-Covid global economic recovery this year, with growth rates of almost 7%.

It will also, as the Great Reopening becomes entrenched, allow equities to continue to climb, and means that over the months ahead, we should continue to overweight cyclicals in portfolios. That said, don't these new trillion-dollar injections in an economy that already has the world's highest public deficit at 15% of GDP stand to wipe out any future room for manoeuvre by the US?

2. COUNTRIES WITH THE HIGHEST DEFICIT VS PUBLIC DEBT

Sources: IMF and Banca March



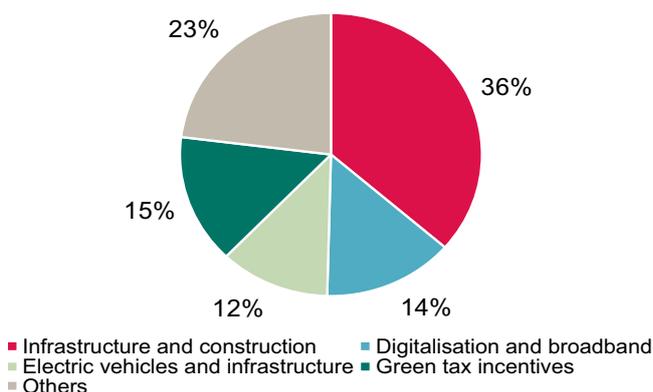
Remember the myth of Tantalus? A son of Zeus himself, Tantalus sacrificed his own child, Pelops, and fed him to the Gods when supplies ran low at a banquet held to appease them. His heinous act discovered by the Gods, Tantalus was condemned to spend all eternity standing chin-deep in a pool of water, beneath a fruit tree; however hungry, thirsty or desperate he grew, the water and fruit would escape his reach for all eternity.

Of the three components of Biden's *Build Back Better Plan*, it is the infrastructure plan that will truly build a greater America and enhance productivity; however, the US economy's capacity to finance itself is not infinite, and to continue to drink from the stream of these measures, Biden will need to finance the growing deficit. It will take more than the 2.75 trillion dollars he says will be recovered over the next 15 years through higher taxes. Among other measures, Biden plans to hike corporate tax from 21% to 28%, undoing part of Trump's previous cut from an initial 31%.

After 10 years of minimal public investment, there is no question that the US needs infrastructure. Just to recover the trend registered over the previous 30 years, it would take an additional 1.3 trillion dollars, especially in areas like surface transport and highways. The *American Jobs Plan* will allocate 36% of its resources to infrastructure, and many of these projects are well-positioned to reactivate the economy, as almost half of the total investment tends to take place in the first year, driving up aggregate demand fast. In addition, the multiplier effect of investment on GDP has been high for highways built in the last 30 years (almost 2x¹).

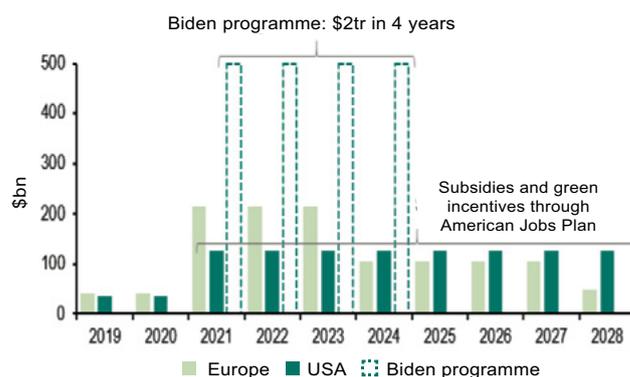
3. AMERICAN JOBS PLAN: BREAKDOWN BY SECTORS

Sources: The White House, European Commission and Banca March



4. RESOURCES ALLOCATED TO GREEN ECONOMY

Sources: The White House, European Commission and Banca March



These investments, coupled with the 14% to be ploughed into 5G, digitalisation and broadband, will be extremely positive for the country and drive up productivity.

Biden has also harness the opportunity to channel more resources into building a cleaner economy. Among other initiatives, 27% of the plan will be invested in electric vehicles and new sources of electricity generation. As figure 4 shows, although the resources allocated to the green economy will be multiplied by 3.5, Biden's proposal is still 4 times lower than the Green New Deal promised on the campaign trail and falls 40% short of the measures announced by the European Union. Having said that, judgement should be reserved until more details of the plan are announced, as there are other infrastructure investments which could also be considered to be linked to the green economy.

Beyond the need to revive an economy which is already showing clear signs of recovery, the evident political intentions behind the programme are cause for concern. The very name of the programme begs the question: why call an infrastructure investment programme the *American Jobs Plan*?

1. Federal Reserve Bank of San Francisco.

Ahead of the *American Families Plan* to be announced by Biden in the next few weeks – which sounds less promising than the infrastructure plan and which is overshadowed by the impending fiscal redistribution – the US economy's financing capacity is set to wear itself out, and increased tax pressure will lead many companies to seek new tax planning alternatives.

In our Greek myth, the solution Tantalus found to the lack of food was far worse than if he had never held a banquet at all, even if the Gods did eventually bring poor Pelops back to life and replace his devoured shoulder with an ivory prosthesis.

Enhancing infrastructure to improve the productive structure and revitalise the US economy is tough work that will indeed bear fruit. However, undertaking an extensive fiscal redistribution when the public coffers can ill afford it and the economic recovery remains in the early stages is a very different thing, and a very grave risk. We can but hope that Biden will bear this in mind for the upcoming Plan. If not, you know what comes next: a global minimum tax to stop companies fleeing the US, followed by chin-deep water and a fruit tree.

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