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Next step for the Biden administration: the infrastructure package

While the Biden administration has just successfully passed a $1900 bn stimulus package, attention will now turn to the infrastructure package that was included in Biden's campaign promises.

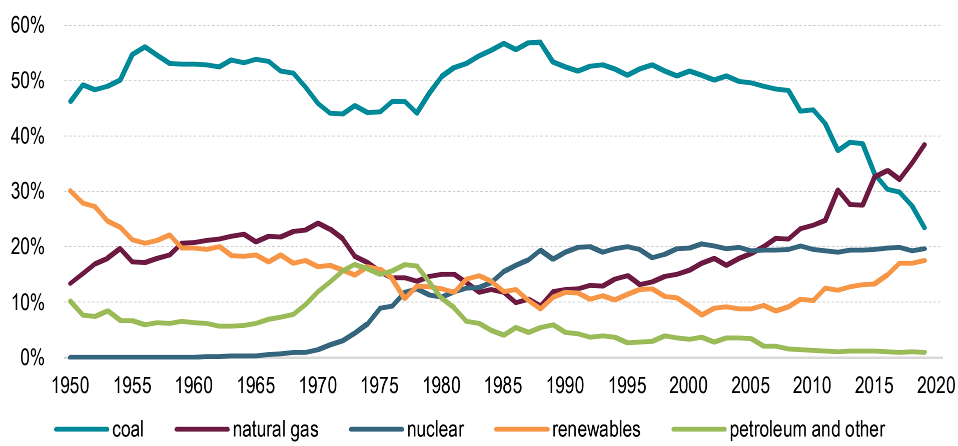
Infrastructure needs in the United States are urgent, and huge investments must be made if the administration is to meet its climate objectives. In 2017, public spending on infrastructure in the US was 2.3% of GDP, the lowest since World War II. Many infrastructures have not been renovated for decades, and the average age of the nation's infrastructure continues to rise. This year, the American Society of Civil Engineers gave a C- grade to US infrastructure and a D grade, that is to say in poor condition, to 11 of the 17 infrastructure categories assessed. In addition, climate change justifies the implementation of "green" investments, either to meet the Biden administration's climate goals (participation in the Paris Agreement and probable announcement of a carbon neutrality goal by 2050), or to make infrastructure more resilient to climate disasters.

The scope of the coming infrastructure package is not yet clearly defined. In July 2020, the House of Representatives passed the Moving Forward Act, a $1.5 trn bill focused on infrastructure, but the Senate, whose majority was Republican at the time, did not vote on it. This Moving Forward Act could clearly serve as a model for Biden's infrastructure plan, as its objective was to achieve "decarbonisation" of all types of infrastructures in the US. Projects included repairing roads and bridges, upgrading public transit systems and bringing internet access to rural and low-income communities. During his election campaign, Biden evoked a $2 trn "Build Back Better" plan, with a particular focus on green energy, but since then some have talked about $4 trn, as it might include a retraining section (job creations in clean energy sector, destructions in others). The cornerstone of the project would be to reach 100% carbon-free electricity generation from 2035. "Amtrak Joe" had also promised the second "Great Railway Revolution" with the electrification of the rail system and an extension of existing interstate rail lines.

But for several reasons, this is not as easy as it sounds. Weren't we already talking about a major infrastructure package under the Trump presidency? The complexity here is that public infrastructure is largely owned by local governments (states and cities). Less than 7% of public infrastructure was owned by the federal government in 2019 (1.1% of roads and highways, for example) and this share has decreased continuously since the Second World War (it was 17% in 1946). **Another hurdle is the highly polarised political class and the very thin Democratic majority in the Senate.** The recent past has shown that infrastructure bills could be drafted in a bipartisan way but still without getting enough support, like the America's Transportation Infrastructure Act on bridges and roads, which was drafted by both Republicans and Democrats, but never came to a vote. As there is still common ground on some topics, the key to the success of the infrastructure package may be... in its dismemberment into several separate small bills, rather than a very large one.

A hidden consequence of this package is that it could exacerbate inflationary pressure

1/ **US: breakdown of electricity generation by major energy source**



Source: CPR AM, EIA

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Another key hurdle is simply the funding of the package. It is rather clear that it will not be completely debt-financed and that it would lead to tax hikes. Several proposals were embedded in the Biden's agenda (corporate tax, tax hike for wealthy households) but here too, some levers unused for decades could be activated, like the federal gas tax (18.4 cents per gallon), which has not been changed since 1993. The CBO has proposed a tax hike of 15 cents per gallon, which would cause a 6% increase of gasoline prices. A carbon tax has also been mentioned. Thus, a hidden consequence of this package is that it could exacerbate inflationary pressure.

If the package is finally adopted, the market consequences might be dramatic, as Jerome Powell has underlined this type of stimulus, as opposed as relief measures, can lift potential growth… and, consequently, neutral rates.

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