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LEADING THOUGHTS

An Investment Scorecard for the Biden Administration

History will judge him on many dimensions, but what can investors reasonably expect that will improve the value of USA Inc.?

At noon on Wednesday, America's new president will set forth his hopes and dreams in the soaring rhetoric of an inaugural address. Voters will listen with anticipation or dismay, depending on their political allegiance. Foreign potentates will glean hints if they can about America's new priorities in their part of the world. Investors will ignore the event altogether.

But setting aside party preferences, how should markets judge Joe Biden's America as an investment? Amid all his other priorities to safeguard national security, soothe racial tensions and salve partisan wounds, what can the new CEO of USA Inc. realistically accomplish to improve the country's income statement and balance sheet? What longer-term investments can he make to boost growth prospects?

If you read presidential memoirs, including the most recent contributions to the genre by George W. Bush and Barack Obama, a persistent theme is just how narrow the options often are for what is supposed to be the most powerful job in the world. Most decisions are among least awful options amid incomplete information, insufficient resources and rivals only too-eager to block success.

But if you were mainly concerned with the economic potential of the company and the returns it could deliver to investors, consider this list of 10 reasonable expectations for the new team.

1) **Contain the pandemic:** Nothing is possible without an end of lockdowns and a return to restaurants, air travel and handshakes with strangers. The early rollout of vaccines makes this a likely win, but it will still take logistical skill, careful messaging and a little luck that new strains remain under control.

2) **Maximize escape velocity:** Republicans and Democrats will always differ on how to balance taxes and spending, but the economy needs to rev its engines through this recovery to maximize growth potential in a world that continues to suffer from secular headwinds. This means plenty of government spending at least until both the unemployment rate and the participation rate are back to pre-crisis levels.

3) **Manage the debt:** This is different from reducing the debt, because the best way to afford last year's emergency borrowing is to invest in the country's growth potential. Government debts have soared everywhere, but low rates make them affordable as long as growth returns. Ultimately, interest rates are well beyond the control of the Oval Office, but demographics and technology remain powerful forces that will keep inflation and borrowing eminently affordable for now.

4) **Repair trans-Atlantic relations:** To be fair to the Trump administration, which picked its own fights with Europe, the economic relationship has long been bogged down in disputes over chicken washing and airplane subsidies. These are now issues to be settled in order to tackle far more

pressing questions that create business uncertainty: taxing digital services, protecting data privacy and devising a common approach to China.

5) **Devise a common approach to China:** This relationship is headed for rockier times as both Washington and Beijing dig in on everything from Taiwan to Huawei. But even if last year's "Phase 1" trade deal hangs by a thread, Chinese officials have judged it in their interest to open financial services to foreigners. Keeping the economic agenda focused on a few concrete reforms (such as those already agreed upon in the Trans-Pacific Partnership) offers the best chance at success.

6) **Champion clear climate priorities:** Even if you have your own lingering doubts about the overwhelming scientific evidence, much of the world is moving to raise the costs of carbon and expand renewable energy use. The new team's commitment to climate policy can actually help America's attractiveness as an investment if it ensures that shifting incentives are as clear and coordinated as possible.

7) **Bridges, roads and tunnels:** Four years is not nearly enough to close America's infrastructure gap, but a federal framework that upgrades and streamlines planning and permitting processes can help accelerate the flows of public and private money into decaying infrastructure that clearly erodes growth potential.

8) **Simplify taxes:** Paul O'Neill, who was Treasury Secretary for George W. Bush, famously called the U.S. tax code an "abomination" because "there's not a single human being who understands it all." Team Biden is planning some important changes to corporate and household tax levels, but anything that makes calculating and paying taxes simpler will have a more lasting effect.

9) **Tackle health care costs:** For all the reforms enacted and debated, health care costs continue to grow faster than the economy and could reach nearly 20% of GDP by 2028. The solutions are highly emotional and fiendishly complex, but any progress at all will pay large dividends in long-term economic prospects.

10) **Expand immigration:** If you're going to tackle one highly emotional and fiendishly complex issue, you might as well try two. Studies debate which immigrants make the biggest economic contributions, but there is little doubt that more workers mean more output. The immigration process needs to be orderly, predictable and streamlined, but it's a key ingredient for growth in advanced and aging economies.

The list, of course, could be much longer, even if you keep your focus just on what makes America a more attractive investment. The details are always politically difficult even when there is broad agreement, and there is surely not broad agreement on all of these.

Feel free to bookmark this on your browser so you can judge progress for yourself over the next four years. Or, better yet, make your own list. Just remember that even the most powerful person in the world can't perform miracles.

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