President Biden proposes to follow up on his $1.9 trillion “American Rescue Plan” with a new “American Jobs Plan” and a “Made-in-America Tax Plan.” A White House fact sheet was released early on Wednesday, March 31. It did not include a clearly itemized cost statement, but the total of the initiatives is apparently in excess of $2 trillion over eight years. Some portion of that cost is claimed to be offset—over 15 years—by corporate income tax increases included in the tax plan.

The “American Jobs Plan” was billed as an infrastructure proposal, and in fact it covers the figurative waterfront of conventional infrastructure. However, it reaches beyond the traditional understanding of the term, even in recent embrace of broadband access and climate issues. The package encompasses housing, workforce development, home care of the elderly and disabled, child care, and labor law.

At his release event in Pittsburgh, the President said that he will propose yet another legislative package, which he called the “American Families Plan.” This raises significant questions of legislative strategy. There is little sign of bipartisan cooperation on the American Jobs Plan. The White House has been open to advancing this new plan using budget reconciliation, but only two reconciliation bills are allowed per budget year, and the congressional majority already has used one. Thus, if the American Jobs Plan must use reconciliation, the American Families Plan will need to rush along to join it in the second and last reconciliation bill for the fiscal year 2022 budget cycle.

The White House fact sheet presents the American Jobs Plan under the following headings:

“Fix highways, rebuild bridges, upgrade ports, airports and transit systems.” The President proposes a $621 billion increase (presumably over the baseline trajectory) in transportation spending. It highlights roads and both economically significant and structurally deficient bridges. It would replace and add new public transit vehicles, making a big bet on electric power in both public buses and private vehicles (including rebates and tax credits). It invests in Amtrak repair and modernization, and funds airport renovation (which might create disputes over whose airport is modernized). The plan remedies past urban highway projects that have divided neighborhoods, and streamlines project approval.

“Deliver clean drinking water, a renewed electric grid, and high-speed broadband to all Americans.” The plan expands the traditional federal role in drinking and waste water (providing credit for modernization and expansion) to fund elimination of all lead pipes and service lines in drinking water systems. It specifies $100 billion for additional high-voltage power transmission lines, and provides tax credits for clean energy generation and storage. It will fund capping orphan oil and gas wells and abandoned mines. The plan includes the $100 billion estimated cost of extending high-speed wired broadband to the estimated 35 percent of rural Americans who lack access at the current estimates of future-proof speed (100 mbs upload and download). At his press conference, the President said expansively that “Americans pay too much for internet service,” although the fact sheet is not clear on how that would be addressed. Also under this heading, the plan proposes to address Superfund and brownfields problems, and bringing next-generation manufacturing to distressed communities.

“Build, preserve, and retrofit more than two million homes and commercial buildings, modernize our nation’s schools and child care facilities, and upgrade veterans’ hospitals and federal buildings.” The plan includes $213 billion for a variety of initiatives from construction to rehabilitation of housing,
including renovation of the public housing stock. It would ease zoning restrictions to facilitate affordable housing. It targets funds on building improvements for schools, community colleges, and child care facilities (including on-site employer child care). A particular objective is modernization and replacement of veterans’ hospitals, but funding is provided as well for the entire stock of federal buildings.

“Solidify the infrastructure of our care economy by creating jobs and raising wages and benefits for essential home care workers.” The plan increase access to long-term care in home and community-based settings, and would facilitate unionization of the home-care workforce.

“Revitalize manufacturing, secure U.S. supply chains, invest in R&D, and train Americans for the jobs of the future.” The plan includes $180 billion for increases in R&D, specifying $50 billion for the National Science Foundation, $40 billion for upgrading of research laboratories (half of that earmarked for Historically Black Colleges and Universities and other Minority Serving Institutions), and $30 billion for “additional funding for R&D that spurs innovation and job creation, including in rural areas.” $35 billion would be directed toward climate science, including creation of an “ARPA-C,” and demonstration projects in energy storage, carbon capture and storage, and other climate-related technologies. The federal government would use its normal acquisitions to broaden market demand for energy-efficient vehicles made in America. Additional funding of $50 billion would provide monitoring of domestic industrial capacity and support of production of “critical goods;” $52 billion would be earmarked for capital availability for US manufacturers. Funding would be provided for regional and small-business technology centers, and for rural development. Another $30 billion would go for pandemic preparedness. $100 billion would be invested in workforce development, including sector-based training and funding for underserved communities.

“Create good-quality jobs that pay prevailing wages in safe and healthy workplaces while ensuring workers have a free and fair choice to organize, join a union, and bargain collectively with their employers.” The plan includes eased access to unionization, and would “require that goods and materials are made in America and shipped on U.S.-flag, U.S.-crewed vessels.”

“Alongside his American Jobs Plan, President Biden is releasing a Made in America Tax Plan to make sure corporations pay their fair share in taxes and encourage job creation at home.” The plan would raise the statutory corporate tax rate back to the 28 percent that obtained before the 2017 Tax Cuts and Jobs Act. It would remove several of the provisions of the 2017 Act relating to taxation of US corporate income earned abroad; the 2017 Act was touted at the time as encouraging US firms to produce at home, but the language of the plan claims that the effect was the reverse. The plan would increase the US corporate minimum tax to 21 percent, and would couple that with diplomacy to reverse the tide of corporate tax rate reductions around the world. The 2017 Act was considered highly complex at the time of its enactment, and the reaction to proposals to reverse some of its key provisions so soon after its enactment will include issues of both substance and compounded complexity.

Viewed as a whole, the President’s new American Jobs Plan includes significant spending increases, mostly of a one-time nature, over an eight-year period, which is claimed to paid for, but over 15 years. The list of one-time projects, though ambitious, falls short of a sustainably funded ongoing construction, modernization and repair program for a growing and increasingly congested nation. (Notably for a highway-intensive package, there is no mention of permanent financing for the highway trust fund, instead relying on general revenues—hitherto a no-no to transportation advocates.) Some of the spending items have broad appeal, but others less so. Yet another American Families Plan is waiting in the wings. The outlook for enactment is unclear.
Based on the available information, The Conference Board has estimated that the American Jobs Plan combined with the Made-in-America Tax Plan would increase the annual budget deficit by $426 billion in 2021 and $510 billion in 2022. At that point, the tax increases would begin to offset the additional spending, and the increments to the deficit would fall gradually, from $435 billion in 2023 to $34 billion in 2025, crossing over to reductions in the pre-existing deficit of $73 billion in 2026, growing to a $168 billion reduction in 2030.

However, the large initial increments to the deficit would have an adverse short-term effect on the debt (referring here to the debt held by the public). The debt is already anticipated to be close to 108 percent of GDP, the highest in US history, in 2021, rising to about 112 percent of GDP in 2030. With the additional impact of the American Jobs Plan, The Conference Board estimates that the debt will equal almost 110 percent of GDP in 2021, rising to about 115 percent of GDP in 2030. In other words, the American Jobs Plan will have an immediate adverse impact on the debt burden, and will only in later years, and only very slowly, begin to undo that increment to the debt.

We note that the GDP is assumed unchanged from the Congressional Budget Office (CBO) forecast published in February, before the enactment of the American Rescue Plan. Therefore, there is no assumed change in the GDP because of the American Jobs Plan either. The Conference Board projects that the US economy will reach approximate full employment within the next two years. The spending (partially offset by the smaller tax increases) in the American Jobs Plan could stimulate the economy to somewhat faster growth at first. However, once the labor force is fully employed, the plan could increase economic growth only by increasing productivity growth. Some of the plans investments (such as repairing structurally deficient bridges) might increase population safety, but not productivity; others (such as lead pipe removal) might increase productivity, but only after a long lag. Additional borrowing to finance the plan might increase interest rates and decrease investment; the tax increases to finance the plan might decrease investment, and hence productivity growth. Thus, while the infrastructure and other investments of the plan should be positive for productivity growth, the net effect, and its magnitude, are uncertain. The Conference Board will provide an analysis as details become available.

This picture illustrates a political risk to the formulation of the package. Breaking with historical practice (and existing law), the American Jobs Plan would pay for very popular increases in highway spending not with earmarked fuel taxes, but rather with general revenues (in this instance the corporate income tax increases). Should the corporate tax increases prove unpopular, and the Administration and the congressional leadership choose to move forward with an apparent compromise that would omit the tax increases but slim down the spending increases in partial compensation (perhaps moving forward with the popular infrastructure component), then the immediate deficit increases could be smaller, but there would be no longer-term offsets to the impact on the debt. The debt situation is already potentially critical, and even a smaller spending package without revenue (or other) offsets would only add further to the rising debt burden.

In sum, even though some of the spending components might be appealing at any time, and might seem especially helpful in the weak pandemic economy, the net cost of the package must be weighed carefully in light of the already record-high levels of the public debt.
Administration’s American Jobs Plan & Made in American Tax Plan Estimates: 2021 to 2030 (Billions)

Outlays
Revenues
Effect on Budget Balance

US Federal Government Budget Balance (Billions of US$)

CBO Feb Baseline + American Rescue Plan Federal Budget Balance Estimate
CBO Feb Baseline + American Rescue Plan + American Jobs Plan & Made in America Tax Plan Federal Budget Balance Estimate