The Daily Dish

Assessing the President's Promises on Infrastructure, Taxes, and Growth

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Eakinomics: Assessing the President's Promises on Infrastructure, Taxes, and Growth

Nobody should be surprised by the administration's plans for tons of spending – some of it actually infrastructure, most of it not – and tax increases. As a presidential candidate, Joe Biden's platform featured those proposals as part of his Build Back Better (BBB) plan. The real question is whether the BBB plan creates jobs and growth as promised.

Yesterday, AAF released its study of the BBB plan. In particular, AAF commissioned Tax Policy Advisers (TPA) to conduct the study because its approach to modeling the macroeconomic impacts is based on the same methods as those used at the Joint Committee on Taxation and the Congressional Budget Office. In this way, it sheds light on the likely analysis of legislation based on the BBB plan, including the American Rescue Plan (ARP) and the proposed American Jobs Plan (AJP). In addition, TPA was given complete autonomy in its analysis of the proposals, data used in the analysis, and key assumptions – especially the productivity impacts of spending on infrastructure. One can't accuse AAF of putting its thumb on the scale.

The paper is full of analytic results. But the key is that the BBB plan raises a net $3.3 trillion in new taxes (over 10 years) and AAF stacked the deck in favor of growth by assuming that it is *all* spent on highly productive infrastructure. Despite this significant increase (ultimately 16 percent) in public capital, the impact after 10 years is to lower gross domestic product (GDP) by 0.2 percent and household spending by 1.2 percent. Just to check, there is also a "high productivity" case that not only stacks the deck with disciplined infrastructure investment but also assumes that public capital is 150 percent more productive than typically found in the literature. In this case, it is possible for the BBB plan to raise GDP after 10 years.

How should one think about these results in the present context?

First, these proposals are not about jobs. One would expect that by the time the AJP arrives, the ARP's $1.9 trillion should have done its job and gotten the economy back to full employment. If not, the Biden folks better be looking for new work. The AJP (and soon to be announced American Family Plan, AFP) are about the quality of those jobs – specifically their productivity and real wages.

Second, the debate over these policies is divorced from concerns over large government debt. In the study, the taxes and spending balance. What really matters is that the taxes discourage private investment (average return roughly 10 percent) to finance public investment (average return roughly 5 percent). It's about the (lack of) productivity effects of infrastructure.

Third, the results inform the desirability of the proposed AJP, as it is drawn from the BBB plan. The AJP raises roughly 1/2 as much in taxes, but it spends perhaps 1/6 as much on high-productivity traditional infrastructure and the rest on non-productivity activities. These results indicate that watered-down mix of spending is likely to yield a more substantial negative macroeconomic impact.

Finally, the AFP is likely to bring in elements of the BBB plan that were left out of the AJP. Notably, we expect the top individual income tax rate to rise, the tax rate on capital gains to rise, and more heavy taxation of capital gains at death. On the spending side, there will be plenty more – e.g., paid family leave, child tax credits, etc. – and none of it productivity-enhancing infrastructure. Taken as a whole, the AJP and AFP together are almost exactly what this study modeled, but without the exclusive focus on productive infrastructure. Don't get your hopes up if they both pass.

The alphabet soup of BBB, AJP, and AFP may have social welfare virtues, or climate policy benefits, or some other positive attributes. But that is not how the policies are being sold. The Biden Administration is touting their contribution to jobs and growth. These results say that such an impact *is* possible. It's just not the one produced by these policies.