Building Back Better: The American Jobs Plan and the American Families Plan

For the past four decades, the view that lower taxes, less spending, and fewer regulations would generate stronger economic growth has exerted substantial influence on U.S. public policy. Over this period, the United States has underinvested in public goods such as infrastructure and innovation, and gains from growth have accrued disproportionately to the top of the income and wealth distribution. Long-standing racial, ethnic, and gender disparities persist. In addition, while historic progress has been made in expanding health insurance, more remains to be done to provide adequate protection against economic risk. Indicators of deprivation, such as child poverty, are too high, and declines in overall life expectancy in some years prior to the pandemic, accompanied by increased disparities, are cause for concern.

The Tax Cuts and Jobs Act of 2017 reflected the old orthodoxy of lower taxes. A sharp reduction in corporate taxes during a time of high corporate profits was sold with overly rosy claims about the economic growth that would result. The law did not deliver on those promises. There has been no evident impact on investment or growth: gross domestic product grew 2.4 percent in the two years leading up to the law's passage and 2.4 percent in the two years following its passage. Instead, the tax cuts contributed to inequality by delivering disproportionate gains to the already well off without the promised wage gains for the middle class.

The economic theory underlying President Biden's American Jobs Plan and American Families Plan is different. These proposed policies reflect the empirical evidence that a strong economy depends on a solid foundation of public investment, and that investments in workers, families, and communities can pay off for decades to come. In contrast to the American Rescue Plan, these plans are not emergency legislation, they address long-standing challenges.

In order to function and deliver strong and shared economic gains, markets need an engaged, effective public sector. From policies that spur innovation and facilitate labor supply to those that provide investments in children and protections against economic insecurity, the public sector has an important role to play in supporting the economy. These types of public programs enable market actors to go about the business of producing goods and services. But when policymakers direct the public sector *not* to do those things—not to invest in innovation, in supporting labor force participation, in children, or in protection from risk—everyone suffers from slower economic growth, greater inequality, and reduced economic security.

In this issue brief, we lay out the economic evidence that demonstrates why robust public investment is an important element of a strong, inclusive U.S. economy.

Growth

Advances in productivity—the ability to produce more goods and services with fewer inputs—make improvements in living standards possible. These advances flow from the introduction of new ideas, which come both from investments in innovation as well as the ability of market actors to bring those ideas to market through new products. Productivity gains also depend on a labor force with the skills to perform the jobs of today and develop the next generation of ideas that will drive the economy forward.

Public infrastructure is the scaffolding of economic activity. Federal, state, and local governments build and maintain physical infrastructure of all sorts, from roads and highways to water mains and school buildings. Infrastructure improvements help connect businesses to customers and provide people with economic opportunity. Public investment is critical to reduce risks to health and safety (as demonstrated by the recent power outages in Texas), and increase overall productivity and output. Available research suggests that the U.S. public capital stock, meaning the equipment and structures owned by the public sector, is too small and in need of improvement.

Innovation—and the new technologies that result from it—drives growth, and the public sector plays a pivotal role in that process. The private sector invests too little in research and development because such activity generates what economists call *positive spillovers*, that is, benefits for the broader public that are not captured entirely by the inventor. For example, when innovators conduct basic research, their discoveries can be used or built upon by others—indeed, that is how science advances. But, this means that for an individual firm, these kinds of investments will not necessarily deliver large financial benefits, even if the firm is the original innovator. Empirical evidence suggests that the social benefits of research and development can be roughly four times the private benefits.

Take vaccine development, for example. The economic benefits of vaccines can far exceed the profits to be made, and thus the private sector is prone to underinvest. Yet, those investments are necessary to generate improvements in human health and well-being, which is why the federal government kept funding the basic research that underlies what are now the COVID-19 mRNA vaccines from Pfizer and Moderna. Another example is investments in new energy technologies, where federal investment in basic research can support greater innovation and deployment of low- or zero-carbon solutions.

Public support for research and development is essential to achieving an appropriate level of innovation. Yet, for the past half century, the United States has been investing less and less: between 1964 and 2017, public research and development as a share of GDP has fallen by over two-thirds, from 1.9 to 0.6 percent. The United States has fallen to 10th in the world in terms of research and development as a share of GDP and, at the current pace, will soon lose its historic spot as the largest research and development investor globally.

There are also times when the public sector has to consider the composition of what is produced or how it is produced. Take the challenges of global supply chains. Just over the past year, the pandemic has caused the United States to experience severe shortages in necessary goods, including masks that offer protection from COVID-19. When disasters such as the pandemic threaten supply chains, the public sector is best suited to respond as it can act at scale to address human needs and national interest. The public sector also has a role in good times in helping to build supply chains that are more resilient in the face of disasters, such as by helping companies maintain surge capacity that protects against costly disruptions but is not profitable when the disruptions do not occur.

Or, consider the economic changes that will be required for the United States to reach the goal of net-zero carbon emissions. As the power sector shifts how energy is produced and businesses grapple with what that means for how they produce goods and services, there is an important role for government to both establish goals, like the national emissions standards, and smooth the transition through policies that support the deployment of new technologies.

Increasing productivity and growth also requires investments in the American people. There is, however, no guarantee that some important productivity-enhancing investments will be made without a robust public sector. This need is particularly acute when it comes to investments in children. The investments the United States made in universal primary and secondary schooling in the early 20th century drove growth as the century wore on. The United States developed a highly skilled labor force, in addition to some of the best universities in the world. Yet, the United States has now fallen behind. The United States ranked 11th in reading in the 2018 Programme for International Student Assessment and 35th in math.

Research has shown that investments in children will deliver gains in health, educational attainment, employment, and earnings, and will thereby increase productivity and growth. Indeed, a number of studies show that the economic benefits of well-designed childhood investments outweigh their costs.

A strong economy also depends on the ability of workers to participate in the labor force. There is evidence that the United States has fallen behind our economic competitors on this measure because of a failure to implement policies that allow families to address tensions between work and family life. U.S. labor force participation for people ages 25 to 54 peaked at more than 84 percent in 1999, but has since slumped through three recessions and never again reached that level. Research shows that workplace supports like access to affordable, high quality childcare and paid leave are associated with higher labor force participation and job retention among caregivers, particularly mothers.

Equity

Growth is only one part of the economic story. An economy where economic gains are not shared is one that is not delivering on its full promise to those who do the work of producing economic output. There is also evidence that greater inequality, in turn, hampers growth through negative effects on innovation and productivity.

In recent decades, income gains have accrued disproportionately to those who were already doing well. Whether measured before or after public programs and taxes, incomes grew fastest at the top. Between 1979 and 2017, after-tax incomes grew by more than 250 percent for the top 1 percent of households and by an incredible *601 percent* for those in the top 0.01 percent. After dropping during the Great Recession, median wealth for the top 10 percent of households had recovered by 2016, but median wealth for the entire population remained below the prior peak as of 2019.

The statistics are more striking by race. Median wealth for Black and Hispanic families in 2019 was $24,000 and $36,000, respectively, while median wealth for white families was $188,000. In addition, for as long as data have been collected, unemployment rates for Black and Hispanic workers have been consistently higher than unemployment rates for white workers.

When paired with investments of the sort described above, tax increases on those at the top of the income ladder would help ensure that the gains from economic growth are more broadly shared. Tax reform can close loopholes and eliminate preferences that favor income from wealth over income from work. It can also improve tax enforcement to ensure that the wealthy must follow the tax laws—in the same way that everybody else does—and reduce the financial gains from creating the latest tax shelter.

Investments in children are a powerful force for equity. As a recent report from the National Academy of Sciences states, "on average, a child growing up in a family whose income is below the poverty line experiences worse outcomes than a child from a wealthier family in virtually every dimension, from physical and mental health, to educational attainment and labor market success, to risky behaviors and delinquency." Moreover, child poverty rates for Black and Hispanic children are more than twice as high than they are for white children. Investing in children will thus not only deliver improved outcomes and faster growth, it will also advance equity by narrowing racial disparities and reducing child poverty.

The public sector plays a crucial role in ensuring that communities are not left behind. In 2016, median income in the 20 percent of counties with the highest incomes was double the median income in the 20 percent of counties with the lowest incomes, a gap that has increased in recent decades. Investing in communities at risk of being left behind can boost productivity and improve equity.

Security

Finally, we must come to terms with what it means to provide real economic security for America's middle class. Risk is a fact of life. Any one of us—or a family member—could get sick, injured, or need care at any time. On their own, private markets will not ensure that health insurance and long-term services and supports are affordable, or that it is financially feasible to take time away from paid work to care for a family member or for new parents to bond with a child. Through the public sector, risks can be shared throughout the population rather than concentrated on a few.

New forms of protection against economic insecurity are necessary to ensure that unavoidable risks do not become avoidable economic pain. Research finds that social insurance programs not only directly reduce hardship and financial risk, they also moderate economic downturns, improve health, and save lives. Investments in expanded social insurance would build on a long tradition of American social insurance programs, including unemployment insurance; Social Security; and Medicare, Medicaid, and the Affordable Care Act. Moreover, they would stand in sharp contrast to recent trends that have increased economic insecurity such as the replacement of traditional pensions with 401(k)s, declining rates of unionization, and the erosion of the value of the minimum wage.

The American Jobs Plan and the American Families Plan are investments in America's economic future that reflect the important role the public sector plays in building the foundation on which our economy stands. Together, they would deliver faster growth, increased equity, and improved economic security.

The plans build on past precedents. Just as the federal government supported rural electrification in the 1930s and created the interstate highway system in the 1950s, these plans invest in universal broadband, safe water, and electric vehicle infrastructure. Just as Social Security, Medicare, Medicaid, and the Affordable Care Act help ensure economic security today, these plans increase economic security tomorrow with new support for home and community-based care, paid leave, and more affordable health insurance. The United States has a long track record of excelling in innovation: from putting a man on the Moon to developing the Internet, U.S. creativity, bolstered by government investment, has made us innovation leaders. Without the proper investments, however, U.S. innovation will take a back seat as other countries forge ahead.

As President Biden has made clear, if we simply build back following the pandemic and resulting economic crisis, we will lose the opportunity to rebuild a stronger, more resilient middle class. By focusing on the evidence, a robust economic agenda could deliver on the President's promise to lead us into the second half of the 21st century with a stronger and more equitable America.