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American Jobs Plan

US Special

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Summary

- President Biden has presented his American Jobs Plan, which amounts to about \$2 trillion in spending on infrastructure and care. This should be financed by raising the corporate tax rate to 28% from 21% and by other tax measures aimed at corporations.
- If we look at the spending items in the American Jobs Plan, which go far beyond what Republicans consider 'infrastructure', and the financing of the plan, through higher corporate taxes, it is not likely that this plan will get Republican support in the Senate.
- However, if budget reconciliation is needed to get the plan through Congress, the Democrats cannot afford a single dissenter in the Senate. While the American Jobs Plan has the potential to unite the Republicans in their opposition to Biden, it could put tremendous pressure on the internal relations between the left and the right of the Democratic Party.

Introduction

Yesterday, in Pittsburgh, President Biden proposed the first part of his long-term plan to sustain the economic recovery. This first part – the American Jobs Plan – focuses on infrastructure (and care), the second – the American Family Plan – is expected to focus on health care, child care and poverty reduction. The American Jobs Plan amounts to about \$2 trillion (\$2.25 trillion) in government spending on infrastructure and care for the disabled and the elderly, to be spent in 8 years. It should be fully paid for in the next 15 years. The American Family Plan, which is scheduled to be presented later in April, could add a sizeable amount bringing the total of the two plans to \$3-4 trillion. As we noted in our special [American Rescue Plan](#), the spending spree of the Democrats only started with the covid relief package signed into law by President Biden on March 11.

Infrastructure spending (and care)

The American Jobs Plan focuses on infrastructure, but also contains a large component aimed at care for the disabled and the elderly. The largest spending item in the American Jobs Plan is **transportation (\$620 billion)**. This includes a \$174 billion investment in electric vehicles, \$115 billion spending on bridges, highways and roads, \$85 billion on public transit and \$80 billion on passenger and freight trains. However, the plan also supports **manufacturing (\$300 billion)**, including \$50 billion to support the domestic production of semiconductors and \$46 billion for clean energy. The plan also provides money for **buildings (\$286 billion)**, including \$213 billion for affordable housing, and **utilities (\$266 billion)**, including \$111 billion for removing lead pipes and improving water system safety and \$100 billion for improving the power grid infrastructure. The plan also supports **job creation and innovation (\$280 billion)** through investment in R&D and training. The plan also supports **education (\$137 billion)**, including \$100 billion for upgrading and building new public schools. In addition to infrastructure spending, the plan

includes a large chunk for **home- and community-based care for the disabled and the elderly (\$400 billion)**, which should create caregiving jobs for low-skilled job seekers.

Table 1: American Jobs Plan

<i>Spending item</i>	<i>Amount (\$ billion)</i>
Transportation	620
Home- and community-based care for disabled and elderly	400
Manufacturing	300
Buildings	286
Job creation and innovation	280
Utilities	266
Education	137

Source: Wall Street Journal

Corporate tax hikes

In order to pay for the about \$2 trillion in spending the American Jobs Plan proposes to raise the corporate tax rate to 28% from 21%. In addition, there should be a 21% global minimum tax for corporates, at present it is 10.5%. The deduction for offshoring jobs will be abolished and IRS enforcement against companies will be ramped up. During his Pittsburgh speech Biden pointed out that a middle class couple pays 22% in federal income taxes, while Amazon pays 0%.

The American Jobs Plan does not include tax hikes for households. In fact, during his speech Biden repeated his promise not to raise taxes for people making less than \$400,000 per year. However, this still leaves room for tax hikes for higher income individuals in the next plan, the American Family Plan. Besides finding money to pay for new government spending, the Democrats want to raise taxes to reduce inequality. Progressives point to polling data showing that people think companies and wealthy people pay too little in taxes. At least the Democrats are still thinking within the boundaries of mainstream thought about fiscal policy where public debt has to be repaid by tax payers. Hence tax hikes. The alternative is to invoke MMT and keep spending until inflation gets out of hand. Either way, spending discipline does not seem to be part of the Democratic approach.

What's next?

House Speaker Nancy Pelosi hopes to pass the American Jobs Act by July 4, which would allow the Senate to pass a final version before the August recess. The American Family Plan is due later in April and is expected to call for an expansion of health insurance coverage, child tax benefits, and paid family and medical leave. How will that be financed? Since the American Jobs Plan focuses on raising taxes for corporations we could still expect tax hikes for wealthy households as part of the American Family Plan. And even if this brings the combined total of the American Jobs Plan and the American Family Plan to somewhere between \$3 trillion and \$4 trillion in 10 years, the progressives will not be satisfied. On Tuesday, Pramilla Jayapal, Chair of the Congressional Progressive Caucus, pointed out that the plan Biden laid out as a presidential candidate was between \$6.5 trillion and \$11 trillion over 10 years.

Republican response

While there may be some common ground between Democrats and Republicans on infrastructure, for a large part they are thinking about different forms of infrastructure. While Republicans may be willing to spend federal money on highways, bridges and airports, Democrats are thinking of green infrastructure facilitating clean energy and electric vehicles. In early March after Biden had a bipartisan meeting with members of the House of Representatives on infrastructure spending, Republican Representative Sam Graves already said that Republicans won't support another Green New Deal disguising itself as a transportation bill. In fact, a few moderate Democrats may also be opposed to it.

Besides different preferences regarding the type of infrastructure to invest in, finding the funds to invest has been a challenge for decades. Keep in mind that President Trump promised a \$1 trillion infrastructure bill during his 2016 campaign., but did not find support for this in Congress. And President Trump was focused on the Republican definition of infrastructure, not the greener Democratic one. What's more, the Republicans passed the Tax Cuts and Jobs Act in 2017, through budget reconciliation, reducing the corporate tax rate from 35% to 21%. It is very unlikely that four years later they are going to support raising that rate to 28%.

Table 2: Composition of Congress

	<i>Democrats</i>	<i>Republicans</i>	<i>Total</i>
Senate	50	50	100
House of Representatives	221	211	435

Source: Reuters

Note: 2 Independent Senators who caucus with the Democrats are included as Democrats; there are 3 vacancies in the House of Representatives.

How to get this through Congress

With two packages and only one more budget reconciliation procedure left in 2021, as we explained in our special [American Rescue Plan](#), one package would have to get a supermajority to be passed this year. The most obvious candidate is the infrastructure plan, as both parties may be willing to do something about the outdated infrastructure of the country. However, when Democrats and Republicans talk about infrastructure they think of very different things. Hence in order to get a supermajority it would have to be a traditional infrastructure plan. The greener it gets, the less likely it is to get Republican support. On Wednesday, Mitch McConnell repeated that the infrastructure proposal is a Trojan horse with massive tax increases and more borrowed money. Republicans are opposed to tax hikes and large increases in government spending, but they have said they could back a narrow infrastructure package that doesn't make significant increases to the deficit. Meanwhile, some Democrats, even progressives, are sceptical of linking complicated tax reforms to straightforward infrastructure spending, fearing it will slow down the process. What's more, Republican senator John Thune (South Dakota) has already indicated that the Republicans would not support an infrastructure package if Democrats were lining up another package - that Republicans would oppose - to be passed at a later stage through budget reconciliation. In other words, in terms of Republican support, part 2 of the plan makes part 1 less likely or at least smaller in size.

Democratic divergence

If we look at the spending items in the American Jobs Plan, which go far beyond what Republicans consider 'infrastructure', and the financing of the plan, through higher corporate taxes, it is not likely that this plan will get Republican support in the Senate. So either this plan will have to be slashed down considerably, or the Democrats will have to resort to budget reconciliation to get the plan through Congress. However, this means that this shortcut - which only requires a simple majority in the Senate – will already be used for fiscal year 2022. Consequently, the Democrats will have to wait for fiscal year 2023 to use the budget reconciliation trick again, or they will have to find bipartisan support for the American Family Plan to pass the Senate. The delay will further increase the pressure of progressive Democrats on centrist Democrats to eliminate the filibuster in order to get rid of supermajority requirements altogether. Meanwhile, taking the route of budget reconciliation is not a guarantee for success. In the Senate, the Democrats cannot afford a single dissenter. Centrist Senators such as Joe Manchin and Kyrsten Sinema, who also featured in our special [American Rescue Plan](#), may be difficult to keep on board. In other words, while the American Jobs Plan has the potential to unite the Republicans in their opposition to Biden, it could put tremendous pressure on the internal relations between the left and the right of the Democratic Party.

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A summary of the methodology can be found on our [website](#)

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