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President Biden's Tax-and-Spend Plan Expands Federal Power, Not Jobs

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KEY TAKEAWAYS

Underlying the "American Jobs Plan" is a radical ideology that rejects free enterprise and basic economics, gambling that government is a primary driver for growth.

President Biden has chosen to warp the concept of "infrastructure" far beyond its traditional parameters to expand the federal domain at great cost to taxpayers.

Congress should employ a "fix it first" focus on existing infrastructure, reform federal permitting rules, and give states more flexibility for their infrastructure.

On March 31, the Biden Administration released details on its "American Jobs Plan." Containing $2.25 trillion in new spending, $400 billion in tax credits, and $2.75 trillion in tax increases, if passed as proposed, the plan would be among the largest pieces of legislation in American history.[1] The sprawling nature of the proposal, which includes taxes, transportation infrastructure, schools, health benefits, economic incentives, and more, makes the package difficult to analyze and summarize for public debate.

This has become standard practice in Washington: Leading Members of Congress bundle disparate policy measures into a handful of bloated legislative vehicles per session, and deem them "must pass" in order to pressure rank-and-file Members to vote in favor of them regardless of their specific policy concerns.[2]

This paper, in its entirety, can be found at **http://report.heritage.org/bg3618**
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TABLE 1

Biden "Infrastructure" Plan Breakdown

CATEGORY	AMOUNT (BILLIONS)
Transportation Infrastructure	
Highways, airports	$115
Mass transit, Amtrak	$190
Misc. transportation	$136
Subtotal	**$441**
Non-Transportation Infrastructure	
Housing	$186
Broadband	$100
Local water	$111
Misc. infrastructure (electrical grid, schools)	$211
Subtotal	**$608**
Climate Agenda and Corporate Welfare	
Green energy tax credits	$400
Electric vehicle subsidies	$159
Misc. climate and corporate handouts	$318
Subtotal	**$877**
Other Non-Infrastructure	
Medicaid coverage for home care	$400
Non-climate R&D	$189
Workforce, childcare	$135
Subtotal	**$724**
Total Spending and Tax Credits	**$2.65 trillion**

SOURCES: News release, "Fact Sheet: The American Jobs Plan," The White House, March 31, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/ (accessed April 29, 2021), and Jeff Davis, "Details of Transportation Programs in Biden Investment Plan Released," Eno Center for Transportation, April 9, 2021, https://www.enotrans.org/article/details-of-transportation-programs-in-biden-investment-plan-released/ (accessed April 29, 2021).

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However, this proposal contains an additional element of duplicity. In order to create a favorable impression for the plan upon release, the Administration and its allies in Congress have leaned heavily on the word "infrastructure" to make it seem moderate and non-controversial. This is an opportunistic attempt to mask the true nature of the plan by taking advantage of a term that has a long-standing meaning in the context of federal policy.[3]

Understanding why the Biden plan is a dramatic departure from traditional federal infrastructure policy, and the startling implications of its many provisions, makes it clear that the proposal would be a deeply radical and dangerous path to take.

"Infrastructure" and Bipartisanship

Reauthorization of federal activity on surface transportation and aviation typically passes with near unanimous support in both chambers.[4] These two areas cover a majority of federal infrastructure activity and are focused on transportation systems that connect the entire nation. In addition, federal spending on highways and airports is primarily funded by taxes levied on people who use the infrastructure, which follows the "user pays" principle.

The existence of a bipartisan status quo should not distract policymakers from the many areas in dire need of reform, including wasteful spending, burdensome regulations, and unnecessary federal micromanagement of activity that should be the domain of the private sector and state and local government.[5]

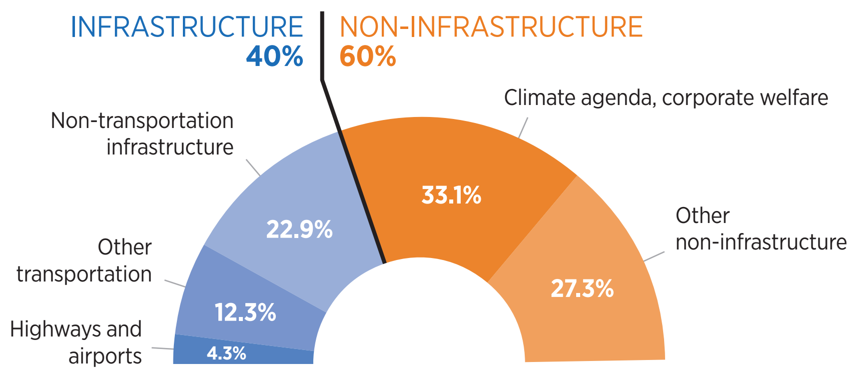
Yet the status quo does provide a baseline for what infrastructure means in the context of federal policy to both legislators and the general public. Regrettably, the Biden Administration and congressional leaders have chosen to warp the concept of "infrastructure" for the sake of attaching many provisions to the plan that would be easier to criticize in their proper context.[6] This includes spending on physical assets that are not in the federal domain, such as school buildings and local water systems, and spending on economic and benefit programs that are far outside any reasonable definition of "infrastructure."

Only about two-fifths of the plan's spending would go toward building or upgrading physical assets;[7] a smaller portion of that would go toward transportation infrastructure. A mere 5 percent to 6 percent of spending would be dedicated to the roads, bridges, and airports.[8] Lawmakers used a similar approach when promoting the $1.9 trillion American Rescue Plan Act (ARPA) of 2021, which they typically referenced as "COVID-19 relief" despite allocating far more to a variety of special interest handouts than to public health.[9]

In addition, the Biden spending plan completely divorces infrastructure spending from taxes and fees on infrastructure use. The "user pays" principle, while not perfectly adhered to at the federal level,[10] is

CHART 1

Spending Plan Is "Infrastructure" in Name Only



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meant to ensure both fairness and accountability. Those who do not use a road, harbor, or train should not pay the same (or more) for its construction and upkeep than those who use it regularly. In the same vein, people who use infrastructure regularly and pay user fees have a stronger incentive to demand proper maintenance. By paying for a wide range of infrastructure with business taxes, the plan would shift responsibility away from users, creating a web of unfair cross-subsidies and reducing accountability.

While many Democrats have cited bipartisanship as a desirable goal of an infrastructure-focused spending package, congressional leaders have made it clear that they will likely use the powerful legislative tool of budgetary reconciliation to pass as much of the proposal as possible without Republican support.[11] Democrats rejected an effort by moderate Republicans to produce an infrastructure plan of less than $1 trillion before it was even released.[12] The Administration's choice to load the package with a multitude of progressive tax-and-spending provisions rather than producing something that remotely approaches the centrist status quo demonstrates that it also anticipates a partisan reconciliation process rather than building cross-aisle support.

Examining the policy and political implications of the Biden plan shows that it would move American governance far to the left on a variety of issues. In the process, it would create a larger and more powerful federal government, depress the private sector at a crucial time for the post-pandemic economy, and cause widespread damage and waste in the process.

A Radical Economic Ideology

Underlying the American Jobs Plan is a radical ideology. This Administration believes that innovation, economic growth, and prosperity stem first and foremost from government spending. The private sector—the American people, businesses, institutions, and civil society—are incapable of knowing what is good for them, or of making correct decisions about their own resources. Only the elites and government experts make wise and worthwhile investments.

Treasury Secretary Janet Yellen said in a recent speech that governments around the world "can use a global minimum tax to make sure the global economy thrives," which, she claims, "spurs innovation, growth, and prosperity."[13]

Under this ideology, private-sector resources must be taxed, especially from businesses, and reallocated to the government to make "critical investments." The Treasury Department's report outlining the more than $2 trillion tax increase on American job creators explicitly states: "The President's Made in America tax plan is guided by the following principles:... Collecting sufficient revenue to fund critical investments. A primary objective of the Made in America tax plan is to promote competitiveness by funding critical new investments."[14]

According to two analysts writing in *The Wall Street Journal*, the President's plan "marks a major turning point for economic policy. The gamble underlying the agenda is a belief that government can be a primary driver for growth."[15] Quite simply, the plan is a rejection of the American system of free enterprise and basic economics.

Top-down central planning does not work, no matter where it is tried. No one person, or even group of people, can effectively dictate outcomes and take into account the unseen and second-order consequences. In reality, it is the decentralization of economic decision-making that "leads to more information being taken into account," leading to better outcomes.[16] Economic freedom is the key to human progress.[17] Higher levels of economic freedom lead to more prosperity, higher levels of health and education, and more upward mobility and social progress.[18]

Moreover, economic liberty is the moral and human option.[19] The "soul crushing dependence" that the intrusion of the state in peoples' lives causes is "incompatible with the pursuit of happiness."[20] Yet instead of removing barriers to innovation and economic growth—barriers often caused by government regulation—the big government "experts" simply recommend even bigger government.

In promoting more government direction over the economy and investment decisions, the Administration has cited the challenge of China. President Joe Biden proclaimed that his plan "will grow the economy, make us more competitive around the world, promote our national security interests, and put us in a position to win the global competition with China in the upcoming years."[21] Brian Deese, Director of the National Economic Council, says, "There's not a market-based solution to try to address some of the big weaknesses that we're seeing open up in our economy when we're dealing with competitors like China that are not operating on market-based terms."[22]

But the way to outcompete China is not to become more like China, with its state-directed economy. The United States is engaged in an ideological competition with the Chinese Communist Party. As noted by The Heritage Foundation's Dean Cheng and Olivia Enos, "China's ideology, rooted in Marxism–Leninism, Maoism, Chinese history, and now Xi Jinping Thought, is fundamentally incompatible with the United States and its ideology of rule of law, democracy, free-market capitalism, and freedom of religion."[23]

Instead of abandoning America's fundamental principles and centralizing more economic power in the federal government, American politicians should champion the power of free markets, which has allowed the U.S. to be the greatest economic power in the history of the world.

Corporate Tax Increases Would Reduce Wages, Harm Economic Growth, Make America Less Competitive

The Biden Administration's proposal includes a number of corporate tax increases that it estimates would cumulatively increase the tax burden by $2.75 trillion over 15 years.[24] These taxes would reduce wages, cost jobs, harm economic growth, cut investment, and make America less competitive.[25]

Corporate Rate Increase Hurts Workers. The President proposes to increase the corporate tax rate to 28 percent from its current 21 percent rate. Heritage Foundation analysts estimate that a corporate tax rate of 28 percent will reduce long-run gross domestic product (GDP) by 0.96 percent, about $1,650 per household.[26] Wages would fall by about 1.27 percent, corresponding to a reduction in income of about $840 per year for the median worker.[27]

Business taxes are borne by people in the form of reduced income by the owners (shareholders) or employees.[28] A review of the economic research by The Heritage Foundation's Adam Michel "shows that workers bear a majority of the economic burden of the corporate income tax in the form of lower wages. Labor bears between 75 percent and 100 percent of the cost of the corporate tax."[29] The corporate tax is a tax on American workers. If the tax rate is increased, many businesses will pass on costs to consumers through higher prices for products and services. One study found that the price increases after a corporate tax hike "are larger for lower-price items and products purchased by low-income households."[30]

A 28 percent federal tax rate would take the combined federal and state tax rate on U.S. corporations to 32.34 percent, which would put the United States in the dubious position of having the highest taxes on corporations among its major international competitors.[31] The U.S. corporate tax rate would be the highest among Organization for Economic Co-operation and Development countries, and the second-highest in the G20.[32]

Minimum Tax on Book Income. The President proposes a new 15 percent minimum tax on the "book income" for large corporations.[33] Book income is reported by corporations in financial statements to shareholders. The purpose of reporting book income is to provide information about the finances and performance of the corporation for investors and creditors. Book income differs from the calculation of taxable income that corporations are required to undertake to comply with their tax liability.[34]

Book income reporting standards are set by a private nonprofit, the Financial Accounting Standards Board (FASB).[35] Basing a tax on *accounting* standards set by a nonprofit group would be a dereliction of Congress's authority and responsibility to make the tax laws. The proposed new minimum tax would add unnecessary complexity to the tax code. Lawmakers should establish a single coherent and transparent system to calculate the tax base.

Sacrificing American Competitiveness with an International Cartel of High Taxes. In a particularly troubling proposal, President Biden says that he will pursue a multilateral agreement to impose global minimum taxes "to end the race to the bottom on corporate tax rates," in an effort to "level the playing field and no longer allow countries to gain a competitive edge by slashing corporate tax rates."[36] The President of the United States and his Administration are actively working to deny a competitive edge for America. It is an attempt to create a cartel of high-tax countries and stamp out competition and innovation.

Instead of harming the economy by raising taxes, the United States should welcome the opportunity to outcompete the rest of the world and put American workers in the best position possible to succeed and thrive.

Encouraging Corporate Flight from America with Tax Hikes on U.S.-Based Multinational Companies. The President's proposed tax increases on U.S.-based multinational corporations would make it more expensive, and less competitive, for a corporation to be headquartered and employ workers in the United States.

The plan would effectively establish a 21 percent minimum tax on foreign profits for U.S.-headquartered companies by increasing the tax on global intangible low-tax income (GILTI) to 21 percent, calculate it on a per-country basis, and eliminate the 10 percent qualified-business-asset-investment exemption. It would subject U.S. businesses to a new tax burden that foreign companies would not face.

The proposal would repeal the deduction of foreign-derived intangible income (FDII), which incentivizes keeping intellectual property in the United States by allowing a 37.5 percent tax deduction on profits stemming from sales to foreign customers resulting from intangible assets (intellectual property, such as patents and software programs) held in the U.S. This would be an incentive for multinational businesses to transfer their intellectual property to foreign jurisdictions, which could lead the companies to also move their research and development, manufacturing, and other business operations abroad, which would result in lost jobs and reduced benefits for American workers.[37]

Tax Increases on Fossil Fuels and More Subsidies for Green Energy. The President's proposal says that it "would remove subsidies for fossil fuel companies," and increase corporate welfare subsidies for "clean energy."[38]

As Heritage Foundation analysts have recommended, "Ending all energy subsidies, including those for oil and gas, would be good for American taxpayers and consumers. However, Congress should not punish the oil and gas industry with targeted tax hikes, nor should it reward other parts of the energy industry favored by the Administration."[39]

More Complicated and Expensive Tax-Law Enforcement. The President proposes increasing the IRS's budget and ramping up tax-collection enforcement. All taxpayers should of course pay the taxes that they legally owe. The best way to ensure compliance with the law would be to simplify the tax code, make compliance less complex, and reduce incentives for avoidance by reducing the tax burden. However, the President's plan would further complicate the tax code and make compliance more costly.

Rather than harming the country through tax hikes, a pro-growth agenda would keep taxes low to protect the gains achieved by the 2017 tax cuts and allow the economy to begin to recover following the outbreak of COVID-19 and the harm caused by restrictions of economic activity across the country.[40] Congress should reject the tax increases proposed by President Biden.

Transportation Infrastructure: Putting Politics and Ideology Ahead of the Public Good

Of the $2.25 trillion in proposed spending under the Biden plan, $441 billion—a mere 20 percent of the total—would be directed to transportation infrastructure.[41] Of this amount, $90 billion (less than 5 percent) would go toward traditional highway and bridge projects, and $25 billion would go toward aviation.[42]

As such, transportation infrastructure represents less than half of overall infrastructure spending in the plan, and spending on the national networks for highways and airports represents a smaller fraction of the transportation total. This is only the beginning of the ways in which this plan would exacerbate existing policy problems and create new ones.

Highways, Roads, and Bridges: More Waste, Slush Funds, and Red Tape. While initial reports were unclear about the amount dedicated to roads and bridges, a more detailed list provided to Capitol Hill offices has revealed that only $90 billion would be devoted to standard construction projects.[43] The rest of the funding consists of:

- $5 billion for the Transportation Alternatives Program, which funds bike paths and pedestrian infrastructure that should be the responsibility of local governments;[44]

- $5 billion for the Congestion Mitigation and Air Quality Program, a de facto slush fund for state and local governments that facilitates projects such as building streetcar systems;[45]

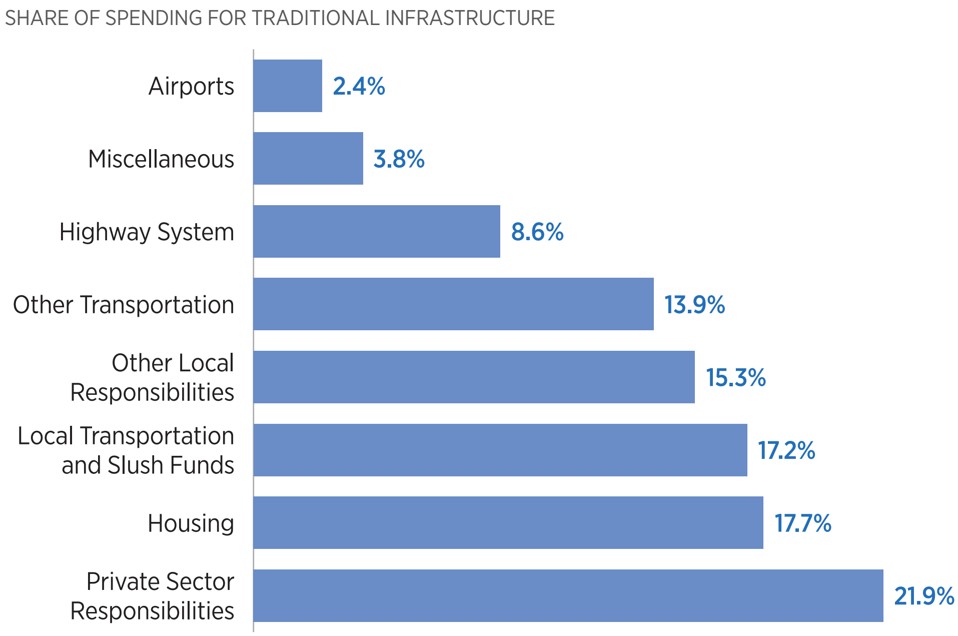
- $10 billion for a new Carbon Reduction Bonus Program, which has yet to be explained but is unlikely to facilitate improved highway quality;

- $5 billion for a Community Transportation Block Grant, which would most likely be another slush fund for state and local governments;

CHART 2

Wrong Infrastructure Priorities

Only 40 percent of spending in the infrastructure proposal would go to traditional infrastructure projects. Yet even within that category, most spending would go to projects that are the responsibility of local governments or the private sector.



SOURCES: News release, "Fact Sheet: The American Jobs Plan," The White House, March 31, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/ (accessed April 29, 2021), and Jeff Davis, "Details of Transportation Programs in Biden Investment Plan Released," Eno Center for Transportation, April 9, 2021, https://www.enotrans.org/article/details-of-transportation-programs-in-biden-investment-plan-released/ (accessed April 29, 2021).

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- $10 billion for the Safe Streets for All program, likely focused on federal funds to promote Vision Zero, which, in practice, means an anti-car agenda;[46] and

- $15 billion for the Highways to Neighborhoods program, intended to address damage caused to neighborhoods that were divided or destroyed during the process of building the country's highway system. While Congress should oppose most programs that direct federal funds toward exclusively local projects, undoing or mitigating the harms caused by past federal funding of heavy-handed central planning should not be summarily dismissed.[47] This issue should receive meaningful consideration on its own merits rather than being a small detail in a bloated and heavily politicized spending package.

Yet even the $90 billion in funding for highways and bridges is not a positive, since the funds would be subject to federal regulations that significantly increase the cost and reduce the speed of construction projects. The federal government should reduce, rather than increase, its role in the highway system.[48]

Transit Subsidies: Primarily a Handout to Labor Unions, Not Help for the Working Poor. The Biden plan would provide $110 billion to urban transit systems,[49] which would be tremendously wasteful and funnel huge amounts of taxpayer dollars toward narrow political constituencies.

Mass transit already receives an outsized share of federal transportation funding. Although transit has long represented a single-digit share of transportation use,[50] it receives about $10 billion per year from the Highway Trust Fund, roughly 20 percent of spending from the fund.[51] Even highly rural states must spend heavily on transit due to federal funding mandates.[52] In addition, transit received $67 billion in pandemic relief funds,[53] a staggering amount that is equal to more than three years of revenue from fares, parking fees, and advertising.[54]

Of the proposed $110 billion transit spending spree, half ($55 billion) would go to "state of good repair."[55] This would reward jurisdictions that failed to maintain their transit infrastructure. Another $25 billion would be used to expand transit systems,[56] which makes little sense considering the amount of excess capacity that most transit agencies had before the pandemic, and makes less sense in the wake of the pandemic's ridership decline.[57] Even once the pandemic is under control, one can expect a continued reduction in daily commuting to urban cores due to an increase in remote work,[58] which will reduce highway congestion and transit usage. As such, federal funding for transit expansion should be a non-starter.

Advocates for transit funding claim that subsidies are needed to provide transportation options for low-income households. Setting aside whether there should be a de facto transportation entitlement funded by the federal government, the way transit subsidies are currently used shows that the working poor are not the top priority.

An examination of budgets for the largest transit agencies shows that labor costs consume between 60 percent and 80 percent of operating costs. The labor cost per employee has swelled to indefensibly high levels: $151,000 in New York,[59] $144,000 in Washington, DC,[60] $120,000 in Philadelphia,[61]

$187,000 in San Francisco,[62] $112,000 in Chicago,[63] $136,000 in Los Angeles,[64] and $91,000 in Atlanta.[65] These numbers are 50 percent or more above average compensation for the respective metropolitan areas[66] and for the transportation industry.[67]

The growing costs of defined benefit pension plans, health plans, overtime pay, and other fringe benefits are the primary factor underlying the exorbitant labor costs. Because transit systems are supported by layers of subsidies, and because unionized transit workers are a reliable part of urban political machines, there is no local incentive to rein in compensation costs. If transit labor costs were in line with private-sector compensation, transit systems could afford to provide higher levels of customer service and infrastructure maintenance with lower levels of subsidy.

The Biden plan would merely enable the expansion of a broken and wasteful status quo that fails both taxpayers and urban blue-collar families alike.

Amtrak: Wasting Untold Billions by Ignoring Public Preferences and Geography. The Biden plan would spend $75 billion on intercity passenger rail.[68] This spending is in line with a long tradition of elites hoping in vain that people will flock to rail so that American travel will be more like that in Europe and Japan.

Intercity rail is incompatible with 21st-century America, due not to insufficient federal subsidies, but due to simple geography. America is much less dense, and its cities are more spread out, than in parts of the world where rail constitutes a bigger share of travel. Outside of coastal areas like the northeast corridor from Boston to Washington, DC, Amtrak utterly fails to compete with the speed and affordability of flying.[69] Even the northeast corridor route suffers from poor performance.[70]

The largest portion of the proposed Amtrak funding, $39 billion, would go toward the northeast corridor.[71] While that corridor is the most important part of the rail network, this large funding shows that even the most heavily used Amtrak line cannot sustain itself with passenger fees, and requires an enormous bailout from taxpayers across the country.

The rest of the Amtrak network is even less financially sustainable, which is why the idea of expanding the network to cover dozens of mid-sized cities would only worsen the problem.[72] Building and maintaining additional stations and running additional trains in parts of the country where Amtrak already needs heavy subsidies would be throwing good money after bad. This would also mitigate claimed environmental benefits of the plan, since nearly empty trains travelling across the Midwest are hardly "green." Even the $20 billion proposed for non-Amtrak rail would be a poor use of public funds since it would still involve severely disproportionate subsidies for rail relative to consumer demand.

Finally, President Biden and other Administration officials have promoted fantastical ideas of high-speed rail competing with aviation in terms of speed.[73] Putting aside the physical impossibility of a train outpacing a jet plane, the spending proposal does not actually fund high-speed rail.[74] The proposal's lack of high-speed rail funding was a political calculation flowing from the failure of recent high-speed rail plans, most notably in California.[75] Opting not to include high-speed rail in the plan was a good choice by the Administration. However, this means the President should avoid citing it as a reason to support the plan.

Aviation: Handouts Not the Way to Improve Airports. Even though aviation is much more important to American mobility than rail, the Biden plan allots it one-third the amount of rail, $25 billion. Of this, $5 billion is for air traffic control, and $20 billion would go to airport infrastructure.[76] The fact that Americans use highways and airports more than other modes of transportation does *not* mean that Congress should increase federal funding for highways and airports.

Federal policy distorts the aviation industry in several ways. It provides preferential treatment to small airports, most notably through the Essential Air Service program.[77] More important, it limits the ability of airports to fund themselves. A nationwide limit on the Passenger Facility Charge has remained at $4.50 since 2000. If the limit were removed, airports would not need federal assistance to maintain or enhance their facilities.[78] This would be a much healthier approach than yet another federal handout for the industry.[79]

Federal Rules and Review Procedures: Injecting Unnecessary Costs and Delays. Infrastructure projects that receive federal funding are subject to a variety of regulations. On the cost side, mandates such as the Davis–Bacon Act (dictating wage rates) and project labor agreements (dictating work rules) are designed to placate labor unions at a cost of billions of dollars per year.[80] Buy American rules have a similar effect on the cost of purchasing materials.[81] The review and approval process adds bureaucratic costs for all levels of government and delays project completion.[82]

Increasing the share of infrastructure projects that receive federal funds will necessarily increase the cost of these federal regulatory burdens. Incredibly, the Biden plan repeatedly cites these rules as a positive,[83] showing that the plan is designed more to appeal to interest groups, such as labor unions and domestic manufacturers, rather than maximizing the public value of infrastructure spending.

Local Infrastructure: Federal Power Creep Threatening Core Aspects of American Democracy

The Administration calls for substantial federal funding in areas that are currently local domains,[84] including public school buildings ($50 billion in grants and $50 billion in bonds), water infrastructure ($101 billion), and street safety ($20 billion).[85]

As with transportation, federal involvement in local projects brings with it a host of problems. These include regulations that increase costs and delays, incentivizing local officials to waste "free" federal dollars for political gain and bailing out irresponsible municipalities that allowed their infrastructure to degrade.[86] A classic example of federal funds enabling an irresponsible local project was Alaska's "Bridge to Nowhere," which was only scrapped after a strong public backlash that brought attention to the problem of national funding for expensive projects benefitting a limited number of people.[87]

Public schools have already received more than $282 billion in federal COVID-19 relief funds over the past year,[88] far in excess of any possible pandemic-related expenses.[89] Additional federal money for school buildings would mark an unprecedented level of federal involvement in one of the core responsibilities of local governments.

Similarly, the federal government has sent $787 billion in fiscal COVID-19 relief to state and local governments in addition to the nearly $800 billion provided annually,[90] an amount that is wildly excessive compared to revenue losses.[91] As such, there is no excuse for states and localities to plead poverty when it comes to financing their infrastructure responsibilities.

The division of power between different levels of government, commonly known as federalism, has been a hallmark of American governance since its founding.[92] This division has only become more important and more necessary as the nation has grown larger and more diverse, with vast differences in needs and preferences both within and among the 50 states. Local officials are more likely to be attuned to the needs of their communities, and it is easier for citizens to hold local officials accountable for missteps than federal officials.

Unfortunately, the federal government has been steadily increasing its spending and authority, which makes overall governance less responsive to diverse local needs. Further, the growing importance of the federal government has made federal elections more contentious due to the winner-take-all aspect of controlling the levers of power in Washington.

In the past, citizens who disliked governance in one place could move somewhere that better suited their preferences. As spending and regulatory decisions become more centralized, it will become nearly impossible for people to escape policy choices with which they disagree, eventually cementing a permanent nationalization of all political issues. This trend threatens to harm America's social fabric as well as the quality of its governance, and the Biden Administration plan would only accelerate the trend.

Energy and Climate: Enormous Spending, Minimal Effect

A major component of the Biden Administration's package is to address climate change as one of the two "great challenges of our time."[93] The proposal includes much of what the President laid out in his campaign platform to use a whole of government approach to achieve his climate objectives. To attempt to decarbonize the power sector fully by 2035, and to reach net zero emissions by 2050, the proposal includes expanding and introducing new subsidies for emissions-free power generation and transmission. Further, the plan calls for taxpayer-funded support for electric vehicles, energy efficiency, jobs training, and research and development.

The plan proposes hundreds of billions of spending for climate and energy initiatives, though it is unclear what this spending will accomplish. U.S. Special Presidential Envoy for Climate John Kerry has noted several times in the past that "if all the industrial nations went down to zero emissions…it wouldn't be enough."[94] The plan appears to be exorbitant spending for little climate return on the investment.

Electric Vehicles (EVs). In total, the plan calls for $174 billion to subsidize nearly every aspect of the EV market, from reshoring supply chains to extending tax credits for buying an EV.[95] While devoid of specific detail, the proposal suggests subsidizing raw materials, parts, the retooling of factories for battery and EV manufacturing, and consumer purchasing. That plan would also provide subsidies to states to build 500,000 EV chargers by 2030, electrify 20 percent of the nation's school buses, and substantially increase the federal procurement of EVs.[96]

More automakers are expanding their respective EV fleet, and General Motors has announced plans to go completely electric by 2035.[97] However, government spending for retooling factories and the production of batteries and EVs is nothing more than corporate welfare. If auto manufacturers believe that EVs are the future, they should secure capital without help from the taxpayer. Furthermore, federal subsidies to expand charging stations would duplicate what states, localities, and utilities are already doing, and in some cases could make Americans pay twice for the same EV infrastructure—as taxpayers and as ratepayers.

Extending the EV tax credit for purchasing vehicles would merely continue a subsidy that has heavily accrued to wealthy individuals. According to research from the University of California at Berkeley, 90 percent of these tax credits accrue to America's top income quintile.[98] When Congress first implemented the tax credit, it included a phase-out for each vehicle manufacturer, arguing that the credit would no longer be necessary once the industry got off the ground. Repeated attempts to extend the subsidy highlights the flaws of introducing a temporary, infant-industry type of handout. As economist Milton Friedman said, "The so-called infants never grow up" because companies that benefit will lobby for continued preferential treatment.[99]

Buildings, Energy Efficiency, and Federal Procurement. Another major element of the energy component of the Biden package is energy efficiency. The plan calls for energy-efficiency tax credits for homes and commercial buildings as well as expanded use of the Weatherization Assistance Program. It also includes a clean-energy block grant for state and local governments and clean-energy procurement for federal buildings.[100] In addition, the plan would establish a $27 billion Clean Energy and Sustainability Accelerator "to mobilize private investment into distributed energy resources; retrofits of residential, commercial and municipal buildings; and clean transportation."[101]

Homes, offices, and storefronts make up 40 percent of the country's total energy use, and efficiency gains can save significant money on utility bills. Therefore, it is often said that families and businesses are leaving "free money" on the table when they forego energy-efficiency upgrades. If that is the case, however, homeowners and business owners should make those investments with their own money rather than having taxpayers cover a portion of the up-front cost.

Audits of federally funded efficiency programs, as well as academic analysis, have found glaring problems in previous attempts to subsidize energy efficiency. Audits found significant overcharges for products and contractors not completing their work.[102]

In a 2018 paper in the *Quarterly Journal of Economics*, economists examined the impact of the federal Weatherization Assistance Program from a sampling of 30,000 homes in Michigan and found that up-front costs of the program were nearly double the long-term savings.[103]

Similarly, the government should only spend taxpayer funds on energy efficiency or clean power for federal buildings if the initiative saves money. Spending should help the taxpayer, not special interests.

Energy Jobs Training, Orphan Wells, and Abandoned Mines. Scattered throughout President Biden's plan are federally funded jobs training programs. The President proposes $40 billion in spending for a Dislocated Workers Program for jobs training in politically determined sectors of the economy, such as clean energy. The program is intended for workers "who have lost jobs through no fault of their own, to gain new skills and to get career services they need with in-demand jobs."[104] The plan also suggests that laying new transmission lines and capping orphan oil and gas wells and abandoned mines will create hundreds of thousands of jobs.

It is unrealistic to simply shift workers from sectors of the economy to which the Biden Administration is hostile toward sectors of the economy that the Administration wants to succeed. Construction workers set to build the Keystone XL pipeline lost their jobs through no fault of their own, but a government program will not seamlessly transfer those workers to other sectors. Previous attempts to create green jobs programs have had limited success in creating a sustainable workforce.[105] Market forces, on the other hand, have had significant success. If the demand for emissions-free power increases, businesses will invest in the workforce necessary to meet that demand.

Abandoned mines and wells are an environmental liability that present public health and safety risks. The Biden Administration is right to prioritize the remediation of these sites and it is a worthwhile use of federal funds. But more money alone is not the solution. Improving the laws and regulations that discourage remediation will help to reduce that liability.[106] Creating an incentive structure that allows nonprofit community organizations, the private sector, and property owners to collaborate with governments at all levels would encourage clean-up, reduce liabilities, and transform land into productive uses.

Power Grid and Electricity Generation. The American Jobs Plan expands several existing policies and subsidies, and advances several new ones in support of the Biden Administration's objective for "100 percent carbon-free electricity" by 2035.

Specifically, the plan would extend investment and production tax credits for clean-energy generation and storage for another decade. These credits, along with the existing credit for carbon-sequestration projects, would be expanded to allow companies to take direct payments rather than a tax credit. The plan would also create a new tax credit for hydrogen production, a new investment tax credit for high-voltage capacity transmission lines, and a new Grid Deployment Authority in the U.S. Department of Energy.[107] The plan also calls on Congress to establish a national Energy Efficiency and Clean Electricity Standard.

Taken together, these proposals layer subsidy upon subsidy for politically preferred energy technologies rather than encouraging the "lower bills for middle class Americans" that the American Jobs Plan intends to achieve.

The Administration's plan continues the bipartisan practice of setting energy policy through the tax code. This is inefficient and cronyist tax policy, as well as poor energy policy in that industry becomes politically dependent on, and consequently politically vulnerable to, changes in policy and leadership.[108] The wind, solar, and nuclear power industries collectively provide 30 percent electricity nationally.[109] Existing subsidies for these resources are projected to divert $52.5 billion in taxes between 2020 and 2024—more than the entire annual budgets of the Department of Energy and Department of the Interior combined.[110] The expanded clean-energy tax credits in the American Jobs Plan will forgo an additional $400 billion in tax revenue, which must be made up by other taxpayers.

Subsidies do not make energy resources and technology less expensive; they just make more people—taxpayers—pay for them. Instead, the federal government should look to reduce regulatory and trade barriers faced by these industries, which it can uniquely address and will not cost taxpayers billions. It is widely acknowledged that high-voltage transmission infrastructure can provide benefits by connecting remote energy-rich regions with urban areas of high demand, relieving congestion, and improving system resilience.[111] Consequently, utilities spent $40 billion improving and constructing new transmission systems, compared to $9 billion in the year 2000.[112]

However, the process of planning, siting, approving, and building these lines generally takes longer than the eight years that the Biden plan covers.[113] Federal agencies should streamline these processes, eliminate policies like "Buy American" restrictions that unnecessarily drive up costs, remove trade barriers, and explore regulatory fixes that could enable better use of existing infrastructure.[114] Policymakers must pursue durable reforms, not temporary exemptions.

In addition to financial subsidies, the plan also proposes to add a major regulatory subsidy for politically preferred energy technologies with a new Energy Efficiency and Clean Energy Standard. The White House has not released details on what such a standard would be or how it would be implemented. Renewable-energy industry groups have expressed support for the concept, in part because it obstructs their competitors in the marketplace. A federal standard also raises questions about the role of states in setting electricity policy and how a federal standard might be redundant to, or inconsistent with, different state policies. There is also the issue of how a federal standard would integrate with different regional electricity markets and account for the Federal Power Act's core commitment to customers that electricity rates be "just and reasonable."

Like state renewable-portfolio standards, a federal standard could further hide costs from customers.[115] For example, a report by the California Air Resources Board, Public Utility Commission, and Energy Commission estimated that it could cost $66 billion to comply with the state's 2018 law that requires 100 percent of the state's electricity to be zero-carbon sources by 2045.[116]

Research, Development, Demonstration, and Commercialization. The Biden plan highlights the challenge of preparing American workers to compete in a globalized and ever-changing economy, a challenge that both parties have struggled to understand and address. President Biden proposes expansive federally funded research, development, demonstration, and commercialization measures, particularly in energy technologies, to spur economic recovery. In particular, the plan proposes that Congress direct more than $180 billion in taxpayer spending to:

- 10 carbon-capture and sequestration demonstrations for steel, cement, and chemical production facilities;
- A new "technology directorate" within the National Science Foundation to fund and focus existing government programs on semiconductors, advanced computing and communications, and advanced energy technologies (many of these programs reside in the Department of Energy's 17 National Laboratories);
- Upgrades research facilities at the National Labs, historically black colleges and universities, and in rural areas;
- A new National Lab focused on climate research;
- A new Advanced Research Projects Agency-Climate (ARPA-C) to fund climate and clean-energy technology breakthroughs;
- Climate demonstration projects in utility-scale energy storage, carbon capture and sequestration, hydrogen production, advanced nuclear reactors, rare-earth-element separation, floating offshore wind, biofuels and bio products, quantum computing, and electric vehicles;

- At least 10 regional innovation hubs; and
- Funding for the National Institute of Standards and Technology "to advance technologies and capabilities critical to future competitiveness."

The plan casts a dour picture of the state of research and development (R&D) in the U.S., and consequently proposes a major flush of spending as an easy fix for innovation in the U.S. However, the plan lacks context that is important for policymakers considering further taxpayer-backed efforts.

The Bloomberg Innovation Index ranks the U.S. as the world's sixth-most-innovative country, behind South Korea in first place, and ahead of China in 22nd place.[117] According to a National Science Foundation (NSF) report on national and global R&D trends, $547.9 billion worth of R&D was performed in the U.S. in 2017. According to the NSF, "the main driver of this sustained and sizable increase was business R&D performance," which conducted $400 billion (73 percent) worth of R&D compared to higher education's $71 billion and the federal government's $52 billion.[118]

Funding for R&D also comes overwhelmingly from businesses, which expended $381 billion on R&D, compared to $121 billion from the federal government, and $46 billion from other sources.[119] Average annual domestic R&D increased by $20.2 billion from 2010 to 2017, reflecting growth rates "modestly faster" than GDP, even as federally funded R&D as a percentage of GDP has consistently fallen since 2009. Though China is growing quickly in R&D, the U.S. remains "the world's top R&D performer."[120]

Despite its extravagant proposed spending, the plan takes a shortsighted approach to taxpayer-backed R&D, demonstration, and commercialization by giving one-off subsidies to the industries and companies that it thinks are the future. Such an approach is severely limited to the lifetime of the government program, is rife with potential for cronyism, and may not align with actual market needs and preferences.

This approach does reward companies with better lobbying teams and political connections, and builds new barriers for companies that do not, or choose not to, meet the parameters of the government's programs. Regardless of their technical merit, unsubsidized companies may appear riskier to potential investors and customers simply because they do not have the government's stamp of approval or interest.

Alternatively, a more sustainable, long-term government approach to energy innovation in the U.S. would be for policymakers to seek policies that make the U.S. a more inviting, dynamic ecosystem for innovation and a competitive country in which to do business, invest, and from which to export.

For example, Congress could remove barriers to, and reduce costs of, R&D through competitive, pro-growth, and generally available, tax policy that removes disincentives for companies to invest in infrastructure and innovation. Immediate expensing of short-lived assets, such as investments in machinery and tools, begins to phase out in 2022, and expensing of R&D investments expires after 2021. These provisions should be made permanent and expanded to include longer-lived investments in structures like new manufacturing space.[121]

Or, instead of compounding the number of National Labs and research institutions as proposed by the plan, Congress and the existing laboratories could make bold changes to ferret out the inefficiencies, duplicative regulations, overlapping missions and capabilities, and micromanagement across the existing government labs that make it difficult for the private sector to engage with them. The Department of Energy's Gateway for Accelerated Innovation in Nuclear (GAIN) voucher program has improved private companies with access to National Lab infrastructure and personnel, and generally avoided the cronyism of more interventionist Department of Energy programs.

The pandemic and the government's response to it at the federal, state, and local levels also revealed many areas where regulatory barriers were stifling creativity, innovation, and access to capital and labor.[122] These are the kinds of issues that the Biden Administration and state governors should be studying rather than rushing to spend hundreds of billions of dollars on highly questionable programs.

Broadband: Government Control the Wrong Approach for Expanding Internet Access

The COVID-19 pandemic has brought broadband access, particularly the lack of it in rural areas, front and center in the infrastructure debate. Closing the "digital divide," which now encompasses the ability to access the Internet, has become a top priority for policymakers on both sides of the aisle. The Biden Administration attempts to address this issue through the plan by allocating $100 billion to "bring affordable, reliable, high-speed broadband to every American."[123]

The proposal prioritizes funds for government-run broadband networks. In addition, it calls for the construction of "future proof" infrastructure, along with dramatically changing the benchmark speeds for broadband.

Congress has already spent a significant amount on various broadband programs in the past three pandemic relief bills. Congress authorized more than $500 billion to be spent either directly on broadband infrastructure or as funds to be used at the discretion of state, local, and tribal governments to bolster broadband infrastructure.[124]

While it is certainly laudable to want to ensure that America remains competitive in the ever-evolving cyber environment, the solutions proposed by the White House only serve to exacerbate the current framework of outdated and ineffectual regulatory regime of price controls, entry barriers, geographically divided markets, and restricted choice.

The Dangers of Government-Run Broadband Networks. The Biden plan "prioritizes support for broadband networks owned, operated by, or affiliated with local governments, non-profits, and co-operatives—providers with less pressure to turn profits and with a commitment to serving entire communities." These government and nonprofit-run broadband networks are typically referred to as municipal broadband.

Empirical evidence indicates that prices in markets with a municipal broadband network are higher than in markets without a government-run network. In fact, George Ford of the Phoenix Center found that prices in cities with municipal broadband were 13 percent higher than in cities without government-run networks.[125] Econometric analysis performed by Sarah Oh of the Technology Policy Institute determined that municipal broadband did not produce any economic benefit, nor did it increase Internet-adoption rates, leaving the digital divide unbridged.[126]

Beyond not providing an economic benefit, municipal broadband often discourages private-sector investment and competition.[127] As economist Lawrence Summers, Treasury Secretary to President Barack Obama, wrote, expanding broadband networks is "clearly the responsibility of the private sector."[128]

Instead of engaging in costly top-down programs with proven lack of success, policymakers should work with the private sector and encourage further innovative solutions to improve access to high-quality, high-speed Internet and encourage Internet adoption.

Hidden Costs of Price Regulation. President Biden asserts that "Americans pay too much for the internet" compared to other countries. However, this framing is not entirely accurate. The latest iteration of the

Federal Communications Commission's (FCC's) International Broadband Data Report ranks the United States as the seventh-most-affordable country for broadband of the 29 countries that the FCC tracks.[129]

Beyond that mischaracterization of America's ranking in the world, the Administration's proposal strongly implies that the solution to the affordability issue is rate regulation. The effects of this kind of policy would be disastrous.

In 2015, the FCC adopted the Open Internet Order under Democratic leadership.[130] This controversial order reclassified Internet service providers (ISPs) as quasi-public utilities under Title II of the Communications Act of 1934. This change in classification made ISPs subject to provisions of Title II, such as price controls. During the two years during which the Open Internet Order was in effect, there was "a decline in broadband infrastructure investment between 2014 and 2015 by $500 million and an even deeper decline of $2.7 billion between 2015 and 2016."[131]

Price controls also have a deleterious effect on the resilience of the broadband networks. In Europe, where regulators control the price of broadband, networks were unable to handle the increased traffic sparked by the COVID-19 pandemic. As a result, European officials had to request that Netflix and YouTube downgrade the quality of their video streams or risk collapsing the networks.[132]

Federal subsidies to promote broadband networks will only serve to distort competition, enriching incumbents and hindering the development of new technology. The best way to lower prices is not with heavy-handed price controls and cumbersome regulation, but through robust competition.

New Medicaid Spending on Long-Term Care Services

Also included in the President's plan is a proposal to increase spending for long-term services under Medicaid by expanding access to home and community-based services (HCBS) and extend the Money Follows the Person (MFP) program. It is estimated that this proposal would cost $400 billion over 10 years.[133] The particulars of the proposal are unknown.

Both HCBS and MFP programs are aimed at allowing Medicaid patients to receive care and services at home instead of at institutional facilities, such as nursing homes. In general, this is a worthwhile goal as in-home care is often more desirable for the patient and can be less expensive than care in an institutional setting.[134]

However, the suggestion that more spending is needed should be closely and skeptically evaluated, as should the suggestion of expanding Medicaid's role in delivering long-term care services to more Americans.

This $400 billion proposal would significantly increase taxpayer funding for long-term Medicaid services. For perspective, total Medicaid spending for long-term care and support services amounted to $197 billion in 2018, of which HCBS totaled $92 billion.[135] This spending proposal would be in addition to the billions of new non-COVID-19 Medicaid spending that the Administration and Congress included in the 2021 ARPA, including specifically for HCBS.[136]

The proposal also ignores the larger, underlying problem of Americans' significant dependence on the government for long-term care services. In 2018, the government, primarily through Medicaid, paid for 71 percent of all long-term care spending; private sources of payment, including private insurance, accounted for just 29 percent of spending.[137]

This dependence on the government, especially Medicaid, for long-term care is a problem. Not only does the overwhelming role of government crowd out private sources,[138] but federally directed payments restrict states' ability to adjust resources and services where needed and could ultimately reduce needed care for others enrolled in the program.

Medicaid is already overstretched, and policymakers should be going in a different direction—focusing on promoting private alternatives, reducing dependence on government programs, and giving states greater flexibility without adding to the cost of the program.[139]

Subsidies for Manufacturing: Corporate Welfare

As part of the American Jobs Plan, President Biden proposes federally subsidizing the manufacturing industry to "convert research and innovation into sustained economic growth."[140] Subsidizing the manufacturing industry for rural areas, small businesses, tribal communities, and medicine will cost taxpayers approximately $300 billion.[141] More specifically, the proposal will allocate funds as follows:

- $50 billion for semiconductor manufacturing and research;
- $50 billion to monitor critical-goods production by constructing a new office at the Department of Commerce;
- $30 billion for medical manufacturing;
- $46 billion to manufacture materials for green energy;

- $20 billion for regional innovation hubs and a Community Revitalization Fund;
- $14 billion to increase technology for industries, academia, and government (geared specifically toward minority-owned businesses in rural areas);
- $52 billion for domestic manufacturers, with a specific focus on clean energy and manufacturing in rural areas;
- $31 billion for research and development, venture capital, and credit to small businesses; and
- $5 billion for a Rural Partnership Program that provides economic support to rural and tribal communities.

President Biden's plan involves major spending to revive an industry that has been in rapid decline since 1980.[142] The United States lost about two million manufacturing jobs between 1980 and 2000, and more recently, 5.5 million jobs between 2000 and 2017.[143] Among all jobs in the United States today, manufacturing only accounts for approximately 8 percent of the total workforce.[144]

The idea of spending billions of dollars to improve manufacturing in the United States counteracts the progress that American workers have already made in terms of technological growth and increased productivity, and blindly allocates taxpayer dollars to a declining sector of the economy.

Technological growth and changes in the style of work have been occurring for the past 200 years. The movement of manufacturing away from manual labor will happen naturally as technological growth continues, making it unnecessary to invest billions of dollars in the industry. This proposal in the American Jobs Plan is counterproductive and will not prevent the continuous shift in manufacturing from occurring.

Why Has Manufacturing Declined? There are several factors that can explain the decline in manufacturing. Some of the most common include stronger competition from overseas, less internal migration, and a change in skills required for manufacturing work.[145] It is economically inefficient for employers to keep manufacturing in the United States when labor-intensive industries can relocate to foreign nations at a lower price. In 2019, Chinese labor was approximately one-sixth the price of American labor.[146]

Other than these factors, many economists point to automation and advanced technology as the main drivers behind the shift in manufacturing.[147] This shift, however, is not a loss for American workers—it is a gain that should be applauded. Technological growth and automation have improved output, production, and efficiency across the manufacturing industry. Technology increases labor productivity and allows workers to produce greater output.[148] This has been evident throughout the past several decades as manufacturing output has consistently risen even as manufacturing employment has declined.[149] These technological advancements eventually lead to a growth in real wages.[150]

The rise in technology has essentially shifted the manufacturing industry from low-skilled work to high-skilled work. This shift indicates that the style of work is advancing, workers are becoming more skilled, firms are increasing efficiency, and output and productivity are rising.

How to Strengthen Manufacturing to the United States. Strengthening manufacturing requires a climate in which businesses can operate without unnecessary burdens, as well as an incentive for hiring American workers. The Biden plan would raise the corporate tax rate from 21 percent to 28 percent.[151] Regardless of the billions of government dollars spent on supporting U.S. manufacturing, domestic manufacturers have virtually no incentive to begin operations in the United States if they will be paying higher taxes. Subsidizing the current manufacturing industry with billions of dollars is simply not the correct approach for American firms and workers.

Double-Dipping with the Creating Helpful Incentives to Produce Semiconductors (CHIPS) for America Act

President Biden wants to include a $50 billion infusion of subsidies into "semiconductor manufacturing and research, as called for in the bipartisan CHIPS Act."[152] This doubling of subsidies toward research and domestic manufacturing funds comes after last year's National Defense Authorization Act included some of the authorizations prescribed in last year's CHIPS for America Act. In February 2021, President Biden called for $37 billion in additional semiconductor research and industry subsidies when he announced a 100-day supply-chain review.[153]

As Congress continues to analyze further action in semiconductors and specific national security needs, any government money should be tailored to those needs. The U.S. industry has a mix of U.S. and foreign manufacturing, with more than 50 manufacturing plants domestically and fabrication facilities in Europe, Japan, Singapore, and Taiwan.[154] Nearly half of U.S. semiconductor companies' manufacturing base is in the United States, and 18 U.S. states are home to major semiconductor manufacturing facilities.[155]

Despite increased competition from China, South Korea, Taiwan, and other countries, the U.S. semiconductor industry remains a global leader. Of the $412.3 billion in worldwide semiconductor sales in 2019, American industries comprised 47 percent ($192.8 billion).[156] It is the fifth-largest exporting industry in the U.S.[157] When it comes to companies producing the most advanced chips smaller than 10 nanometers, U.S.-based Intel is one of three global leaders. Taiwan Semiconductor Manufacturing Co. (TSMC), which last year announced plans to build a new plant in Arizona, and South Korea–based Samsung are the other two.[158] Most recently, Intel announced a $20 billion investment in two new plants in Arizona.[159]

The industry also benefits from a permanent R&D tax credit secured at the end of 2015. Semiconductor and chip manufacturers spend roughly 20 percent of their sales on R&D (close to $40 billion), more than any other industry.[160] Furthermore, various federal agencies collectively spend about $1.5 billion on semiconductor-specific research.[161]

Private companies regularly collaborate with these agencies, for instance, through the Department of Energy's National Labs, to improve and advance chip technologies. In addition to federal programs, state and local governments offer subsidies (such as cash grants, targeted tax credits, and industry-specific tax exemptions) for semiconductor plants.

American technological supremacy requires competition in innovation. If anything, specific subsidies would likely undermine innovation as investors "follow" the government's funding path. The U.S. cannot "beat" China by becoming more like China. The U.S. should examine government-imposed barriers that are preventing U.S. companies from competing, rather than awarding industry-specific subsidies.

National Security Needs. Nevertheless, national security program needs within the Department of Defense and the Intelligence Community warrant further exploration. Recently, the Defense Advanced Research Projects Agency (DARPA) announced the creation of the Structured Array Hardware for Automatically Realized Applications (SAHARA) program, "which aims to expand access to domestic manufacturing capabilities to tackle challenges hampering the secure development of custom chips for defense systems."[162] In addition, the Defense Department's Trusted Foundry Program continues to evolve, and includes 78 industry participants and covers around 2 percent of the overall chips that the Defense Department purchases.[163]

Programs such as these deserve further review and scrutiny as they move forward. Properly designed, government and private-sector coordination and resources are warranted for securing future custom-chip designs and production capabilities for national security needs. However, an "American-manufactured-only" strategy will likely not keep up with market demands.

Any government funds, at a minimum, should be tailored to cutting-edge semiconductors, not older semiconductor technologies in order to simply out-subsidize foreign competitors. Additionally, proper guardrails need to be established to prevent any funds from essentially subsidizing foreign government companies and supply chains, especially those that benefit China. Furthermore, the U.S. should look at broader relationships with allied partners to counter supply-chain and manufacturing woes within the semiconductor markets. Strategic and appropriate investments, where necessary for national security interests, combined with the identification and removal of government-based barriers are a good place to start. Simply put, double-dipping for chips will not fix the United States' semiconductor issues.

Government Job Training: Continuing a Long History of Federal Failure

The plan calls on Congress to "pair job creation efforts with next generation training programs," including "evidence-based approaches to supporting workers."[164] It is important that workers have opportunities to gain the education and training necessary to pursue in-demand careers. Prior to COVID-19, when the economy was strong and there were more job openings than there were workers looking for jobs, employers were offering—even paying workers—to undergo education and training to fill needed positions. Between 2017 and 2020, employers provided an average of $87 billion worth of training, marking a 34 percent increase over the previous four-year average of $65 billion.[165]

The federal government also provides job training, but other than its registered apprenticeship programs, federal job training lacks efficiency and effectiveness.[166] The Government Accountability Office notes that 43 different federal job-training programs "span nine agencies and generally overlap by providing similar services."[167]

While the private sector has continually adapted to provide relevant and effective education for workers, government job-training programs have consistently failed to do so. In part, this is because government programs are developed by bureaucrats who have little awareness of the unique skill needs of private-sector employers. In technology, for example, it is hard for federal employees who operate under decades-old information systems to design cutting-edge technological education programs.

The President's plan calls for "evidence-based approaches to supporting workers," but the evidence on federal job-training programs shows that they are ineffective and sometimes even counterproductive. According to "gold standard" randomized experiments, the $25,000 per-participant federal Job Corps program led to participants being less likely to earn a high school diploma, no more likely to attend or complete college, and earning only $22 more per week than similar non-participants.[168]

Furthermore, the Workforce Investment Act (WIA) Gold Standard Evaluation found that despite the Department of Labor's directive to provide training for in-demand services, only 32 percent of participants found occupations in their area of training, and the majority of participants—57 percent—did not believe that their training helped them find employment.[169] Moreover, the training did not increase participants' self-sufficiency, and 47 percent of participants who received full WIA services still received Supplemental Nutrition Assistance Program benefits (compared to 41 percent of participants who received only core services).[170]

Instead of raising taxes on businesses to finance more wasteful and ineffective job-training programs, policymakers should keep taxes low on businesses and eliminate unnecessary regulations to free up more resources for businesses to invest in providing the education and training that they know, firsthand, to be in demand and to increase workers' productivity and earnings.[171] Moreover, the Administration should expand successful apprenticeship training programs—rather than cancelling the Trump Administration's expansion of industry-recognized apprenticeship programs, as it has—that provide relevant education to workers at zero cost to taxpayers.

Putting Big Labor ahead of Workers and Taxpayers

The President's plan directs federal spending included in the proposal towards union jobs and union-imposed pay and benefit levels.[172]

There is nothing wrong with workers choosing to join a union, but considering that only 6 percent of private-sector workers choose to join a union, and considering that among current union members, fully 94 percent of them never voted to become members, federal funds should not prioritize union jobs above non-union jobs. This is especially true as many workers have become frustrated with unions' use of member dues for political activities instead of representing union members,[173] and with union corruption, such as the recent uncovering of what federal investigators called a systemic "culture of corruption" within the United Auto Workers union.[174]

Relying exclusively on union-labor and "prevailing wage" rates will force taxpayers to overpay for federal infrastructure projects. Already, the Davis–Bacon Act, which requires workers on federal construction projects to receive "prevailing" wages and benefits that are 22 percent higher than market wages, drives up federal construction costs by 9.9 percent.[175] That is because the Department of Labor uses non-scientific methods to calculate wage rates, resulting in massively inflated wages in some areas, and below-market rates in others.[176] If federal taxpayers are to foot the cost of a multitrillion-dollar "infrastructure" package, they should not have to pay a hefty premium on top.

In addition to the direct costs that taxpayers will pay through higher union wages and compensation packages, there is a high likelihood that taxpayers will later have to bail out the unfunded pension promises that unions make to their members. Generous and secure pension benefits are a main selling point of union organizers. Yet, union organizers fail to inform workers that most union pension systems have become Ponzi schemes.

Collectively, union pension plans are on track to pay only 42 cents on the dollar in promised pension benefits, with many younger workers on track to receive mere pennies on the dollar.[177] Already, Congress provided a $6.6 billion[178] bailout to the United Mine Workers of America pension plan in 2019, and another $86 billion to a select group of about 185 private union pension plans (when more than 1,000 plans are less than 60 percent funded) in ARPA.[179]

The President's proposal makes it a priority for more workers to become union members and implies that workers lack the freedom to join unions. Workers are already free to join a union; the problem is that some workers are not free to *not* to join a union. In the 23 non-right-to-work states, workers can be forced as a condition of employment to join a union and to have a portion of their paychecks taken without their consent and given to a union, even if they do not support the union and do not want its representation.

Instead of attracting members by providing things that workers value—such as education and certification programs, or a la carte benefit options—union leaders are instead looking to policymakers to enact laws that would force more workers into unions.

The Protecting the Right to Organize (PRO) Act. President Biden's infrastructure plan calls on Congress to pass the PRO Act and, in seeming direct contradiction to the Supreme Court's decision in *Janus v. AFSCME*, calls on Congress to guarantee union and bargaining rights to public service workers.[180] The PRO Act is a sweeping overhaul of U.S. labor laws that infringes upon workers' freedom, opportunities, and privacy; assaults basic democratic rights; and infringes and oversteps states' sovereignty.

Among other harmful provisions, the PRO Act would violate workers' personal privacy by requiring employers to provide their personal information (such as personal cell phone number and home address) in a searchable electronic format to union organizers, stripping workers of the right to a secret-ballot election by sometimes replacing actual votes with signatures collected by union organizers, legalizing secondary boycotts and subjecting neutral third parties to harmful strikes and boycotts, overturning the franchising business model, upending the gig economy and independent contracting, and invalidating 27 states' right-to-work laws.[181] Each of these steps is an attempt to grant more power to unions regardless of whether workers want them.

There is nothing wrong with workers choosing to join unions because they value the services that unions offer, but no workers should ever be forced to join a union and have union dues taken out of their paychecks against their will, nor should any workers ever be prevented—through exclusive union representation—from negotiating directly with their employer or choosing a non-union representative to negotiate on their behalf.

Instead of forcing workers into unions that they do not support, policymakers should enact true pro-worker laws that allow workers to choose not only whether they want to organize, but that also allow them to organize in ways that offer something other than adversarial relationships and rigid compensation systems that fail to reward performance.[182]

Housing Proposals: Wasteful and Ineffective

President Biden's plan involves several housing proposals that would waste taxpayer money on ineffective programs.

Federal Government Involvement in Local Zoning Restrictions. The infrastructure plan proposes to "eliminate exclusionary zoning and harmful land use policies" through a "new competitive grant program" for jurisdictions that "take concrete steps" to enact changes desired by the federal government.[183] The infrastructure plan specifically targets minimum lot sizes, parking requirements, and single-family housing preferences for elimination.[184]

This empowers the federal government to dictate the texture of local neighborhoods, undermining the ability of families and local governments to determine the distinctive features of their own communities. In addition, conditioning these grants on a state or local government adopting, continuing, or discontinuing any "public policy, regulation, or law" may violate federal law precluding such coercion.[185]

The Neighborhood Homes Investment Act (NHIA): Inefficient, Place-Based Incentives. The plan seeks to build and rehabilitate more than 500,000 homes through NHIA tax credits.[186] This would shower $20 billion of tax credits on 500,000 homes—an average of $40,000 for each rehabilitation. This tax credit is available only to projects meeting government criteria in government-designated Qualified Census Tracts (QCTs) involving homeowners fitting government-proscribed parameters.

The NHIA provides tax credits covering the difference between the total acquisition and rehabilitation costs of a qualified residence and the sales price—limited to 35 percent of all eligible costs. For instance, an investor who purchases a house for $200,000 and incurs $50,000 of rehabilitation costs, but sells the home for only $230,000 after the rehabilitation could receive a tax credit for $20,000 covering the difference. The tax credit can also cover the gap between the development costs incurred by the developer and the amount received as compensation (with certain limitations). For instance, a developer may complete $100,000 of upgrades but only receive $65,000 in compensation. The tax credit of $35,000 would cover the gap.

Increasing the valuations of real estate in QCTs that suffer from concentrations of poverty fails to spur the creation of affordable housing. Academic and government studies consistently show place-based development programs fail to increase employment, raise wages, or advance general economic opportunity for targeted residents because they have not addressed the main causes of poverty.[187]

Inaccurate Claims that Public Housing Suffers from Underinvestment. The plan aims to spend $40 billion on improving public housing to fill "longstanding public housing capital needs" caused by "years of disinvestment."[188] The need for capital expenditures (CapEx) on existing structures varies substantially based on characteristics of the particular structure. However, a general rule is that 1 percent of the property value should be allocated annually for such investments.[189] The assertion that "underinvestment" is to blame for the disrepair in many public housing projects ignores the fact that state and local governments already spend an average of more than $5.3 billion annually on government fixed-residential-assets investment.[190] This annual investment is more than 1.5 percent of the total $336.7 billion value of all residential property owned by state and local governments.[191]

The infrastructure plan would spend nearly $40,000 in CapEx for each of the existing 1.1 million public housing units, in addition to the billions already spent by state and local governments. This amounts to an average of more than $5,000 annually for each of the 1.1 million public housing units.[192]

Retrofitting and Weatherization: $213 Billion of Malinvestment. The plan would spend more than $213 billion on producing, preserving, and retrofitting more than 2 million living places—a cost of more than $106,000 per unit.[193] The plan uses rising energy costs as the rationale for the retrofitting and weatherization. However, energy costs have actually declined relative to overall inflation in recent decades.[194] Favored entities, such as solar panel companies, stand to benefit while the private sector bears the consequences of malinvestment resulting from government misallocating limited resources.

Prevailing Wage Requirements Driving Up Cost of "Affordable" Housing. The President's plan requires that "prevailing wage" rates be paid on affordable housing infrastructure projects. In many areas, this far exceeds the market rate for wages, resulting in taxpayers bearing significant additional costs.[195] Prevailing-wages requirements drive up costs substantially—a sure way to make affordable housing construction quite expensive to taxpayers.

Failing to Address a Primary Cause of Increased Housing Costs. The infrastructure plan does nothing to address one of the key drivers of exorbitant housing costs: the outsized government imprint in the housing-finance sector. The federal government's subsidization of the mortgage markets through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac is one of the biggest drivers nationally of home price inflation.

Investors who purchase Fannie's or Freddie's bonds and mortgage-backed securities (MBSs) ultimately provide funds for people to finance homes, and these bondholders and MBS investors enjoy implicit government backing. It is common knowledge that taxpayers would make good on promised cash flows if either Fannie or Freddie failed financially. This feature leads to riskier lending than would take place without such guarantees because it allows investors to ignore the true financial risks of those underlying mortgages and securities.[196] More than 90 percent of all residential MBSs are issued by Fannie Mae and Freddie Mac.[197]

Home prices have spiked 75 percent since February 2012.[198] This is 29 percent higher than the peak of the prior housing bubble reached in 2007.[199] Real (adjusted for overall inflation) residential property prices in the United

States by the third quarter of 2020 reached the levels of late 2004 as the prior bubble neared its peak, setting all-time highs in real housing prices.[200] The decline in 30-year fixed interest rates from near 6.6 percent at the prior peak to a low of just 2.65 percent in January 2021 masked the impact of the rising home costs on affordability.[201] A return to 6.6 percent 30-year fixed mortgage rates (still below the historical average) would increase a mortgage payment by 58 percent even with no increase in home prices.

The continued government guarantees and subsidies dangerously prop up these housing prices. Congress could make housing more affordable by shrinking the federal role in housing finance.

Infrastructure Policy Alternatives

While the Biden Administration's spending plan is strongly misguided, criticism of the plan should not be mistaken for complacency about the quality of the nation's infrastructure. There is tremendous opportunity to reform federal policy in ways that would improve the value of current spending.[202] These include:

- **Reforming federal permitting rules, which would allow construction projects to be completed faster and at lower costs.** Changes along these lines were part of surface transportation legislation crafted by the Senate Environment and Public Works Committee in 2019, which did not become law but did receive bipartisan support.[203]

- **Allowing state and local governments to have more flexibility and authority to fund and build infrastructure themselves.** This would include removing the prohibition on tolling on most of the interstate highway system, removing the limit on the Passenger Facility Charge for airports, allowing low-density states to spend a smaller portion of their Highway Trust Fund allotment on public transit, and providing regulatory "escape hatches" so that states can seek exemptions to federal mandates if they can demonstrate that the mandate would substantially increase costs.[204]

- **Restraining infrastructure spending until there is a better sense of how the pandemic has altered infrastructure needs.** This would include a "fix it first" focus on maintaining existing infrastructure, and largely or completely pausing expansion projects, especially in the context of federal funds.

These reforms would improve infrastructure without requiring massive tax increases or needlessly enlarging federal power and control over local matters.

Conclusion

Unlike how it has been promoted, the Biden Administration's American Jobs Plan would undermine the post-pandemic economic recovery through a wide array of wasteful spending programs, cronyist corporate subsidies, burdensome federal regulations, and destructive tax increases. Congress must resist attempts to convert the plan into legislation, and should instead seek beneficial policy reforms that could find bipartisan support.

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