



# Budget Model

## President Biden's \$2.7 Trillion American Jobs Plan: Budgetary and Macroeconomic Effects

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**Summary:** PWBM projects that the American Jobs Plan proposed by President Biden would spend \$2.7 trillion and raise \$2.1 trillion dollars over the 10-year budget window 2022-2031. The proposal's business tax provisions continue past the budget window, decreasing government debt by 6.4 percent and decreasing GDP by 0.8 percent in 2050, relative to current law.

### Key Points

- PWBM projects that President Biden's American Jobs Plan (AJP) would spend \$2.7 trillion and raise \$2.1 trillion dollars over the 10-year budget window 2022-2031.
- The spending provisions of the AJP, in absence of any tax increases, would increase government debt by 4.72 percent and decrease GDP by 0.33 percent in 2050, as the crowding out of investment due to larger government deficits outweighs productivity boosts from the new public investments.
- The tax provisions proposed in the AJP, in the absence of any new spending, would decrease government debt by 11.16 percent in 2050. Despite the reduction in public debt, the AJP's tax provisions discourage business investment and thus reduce GDP by 0.49 percent in 2050.
- Considered together, the tax and spending provisions of the AJP would increase government debt by 1.7 percent by 2031 but decrease government debt by 6.4 percent by 2050. The AJP ends up decreasing GDP by 0.8 percent in 2050.

### Introduction

On March 31, 2021, President Biden released the [American Jobs Plan \(AJP\)](#). This plan proposed \$2.3 trillion in new federal spending on various forms of public infrastructure, research and development, workforce training, affordable housing, and caregiving. [Later reporting](#) confirmed that the AJP would include an additional \$400 billion in clean energy tax credits not specified in the administration's original announcement.

### Projected Budgetary Effects

In total, the AJP proposes \$2.7 trillion in new federal spending over the next 8 years, 2022 to 2029. The AJP does not specify any spending plans beyond 2029; PWBM therefore assumes that the proposal would not increase federal outlays in 2030 and beyond.

The AJP is funded by proposed increases in business taxes, including:

- Increasing the corporate tax rate to 28 percent,
- Establishing a minimum tax on corporate book income,
- Raising the tax rate on foreign profits,
- Eliminating the deduction for Foreign Derived Intangible Income (FDII),
- Eliminating tax preferences for fossil fuels.

The revenue effects of these provisions are shown in Table 1.

Table 1. Conventional Revenue Estimates for the American Jobs Plans, Fiscal Years 2022 – 2036

*Billions of dollars, Change from Current-Law Baseline*

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022-2031	2022-2036*
Set the Corporate Tax Rate at 28%	46.2	68.5	73.3	79.0	93.5	101.3	104.6	106.3	107.3	111.6	891.6	1,489.6
Set the Rate on GILTI at 21%; Eliminate the Deduction for Tangible Returns; Assess Country-By-Country; Prevent Inversions	40.9	61.3	66.2	72.0	69.7	74.3	80.4	85.4	87.6	89.9	727.7	1,225.7
Eliminate Deduction for Foreign Derived Intangible Income	8.3	13.4	19.2	23.5	22.4	22.8	28.9	34.8	40.6	46.0	259.7	541.1

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022-2031	2022-2036*
Enact A												
Minimum Tax												
on Large	5.8	9.3	11.5	14.7	18.5	20.9	23.3	25.3	26.5	27.8	183.6	339.9
Corporations'												
Book Income												
Eliminate Tax												
Preferences												
for Fossil	2.3	2.7	3.0	3.0	3.3	3.5	3.5	3.6	3.8	4.0	32.7	55.1
Fuels												
<b>Total</b>	<b>103.5</b>	<b>155.2</b>	<b>173.3</b>	<b>192.1</b>	<b>207.3</b>	<b>222.7</b>	<b>240.7</b>	<b>255.4</b>	<b>265.8</b>	<b>279.2</b>	<b>2,095.3</b>	<b>3,651.4</b>

\*Year-by-year estimates for 2032–2036 can be found in [Appendix A](#).

Over the 10-year budget window, 2022 to 2031, the AJP raises \$2.1 trillion in new tax revenues. Due to a lack of detail, we do not model the AJP’s other tax proposals which would increase tax enforcement against corporations, deny expensing for offshoring jobs, establish a tax credit for onshoring jobs, and encourage other countries to increase their taxation of corporations. The estimates below therefore likely represent a lower bound on revenue raised by the AJP.<sup>1</sup>

## Projected Economic Effects

### Spending

PWBM analyzes the macroeconomic effects of the AJP using our [Dynamic OLG Model](#). Our model treats individual components of the proposal’s \$2.7 trillion in new spending either as *public investments* or as *transfers*. These spending types have different direct effects on the economy:

*Public investments* include new spending on transit infrastructure, research and development, and domestic manufacturing supply chains—which make up about \$2.1 trillion of the AJP. These are considered investments in “public capital” which enhance the productivity of private capital and labor. Given the similarities between the AJP and the Biden campaign platform, we use the public investment framework described in our [Biden platform analysis](#), assuming spending and building rates in line with a [2016 Congressional Budget Office report](#).

*Transfers* include spending on affordable housing access and on home- and community-based care—the other \$600 billion of new spending in the AJP. We assume that the affordable housing spending in the AJP generally benefits households with below-median incomes, while caregiving provisions in the AJP—mainly implemented through Medicaid—generally benefit older and Medicaid-eligible households. While they are in effect, transfers to working-age households let individuals work less without consuming less, reducing overall labor supply.

New spending on *either* public investments or transfers, if financed through increased federal deficits, has the indirect effect of crowding out private investment. That crowding out effect reduces growth in the capital

stock and thus GDP.

Table 2 shows the economic effects of *only* the new spending in the AJP, including both transfers and public investments, considered without the proposal's tax increases.

Table 2. Economic Effects of the AJP's Spending Provisions, 2031-2050

*Percent Change from Baseline*

<b>Year</b>	<b>GDP</b>	<b>Capital Stock</b>	<b>Average Hourly Wage</b>	<b>Hours Worked</b>	<b>Government Debt</b>
2031	-0.25	-1.17	-0.23	-0.02	8.16
2040	-0.19	-1.28	-0.18	-0.01	6.43
2050	-0.33	-1.46	-0.29	-0.05	4.72

Although the plan's public investments increase the productivity of capital and labor, that productivity boost is not enough to overcome additional crowding out of capital due to increased government deficits. By 2031, the AJP's spending provisions would increase public debt by 8.16 percent, decrease the capital stock by 1.17 percent, and decrease GDP by 0.25 percent. Over time, more public capital is built and becomes productive, but the resulting increases in productivity are still not enough to overcome the crowding out effects of higher deficits. By 2050, the AJP's spending provisions increase government debt by 4.72 percent, decrease the capital stock by 1.46 percent, and decrease GDP by 0.33 percent.

### **Taxes**

The tax provisions in the AJP have two direct economic effects: decreasing firms' incentives to invest and disincentivizing saving by households. The revenue raised by these tax provisions has the indirect effect of decreasing government deficits and thus crowding *in* private investment.

In isolation, raising the statutory corporate tax rate is expected to *increase* corporate investment in the near-term, as shown in [PWBM's recent corporate tax estimate](#). That is because, under the current-law regime of accelerated depreciation, marginal effective tax rates on corporate investment are low regardless of the headline rate. As a result, raising the corporate tax rate does not meaningfully affect the normal return on investment, instead taxing rents and returns from existing capital. However, that positive effect is reversed when an increase to the corporate rate is combined with the AJP's proposed minimum tax on book income, which reduces the value of depreciation deductions—in turn increasing the tax wedge on investment. The plan's international tax provisions also increase the overall tax burden on corporate income.

Moreover, the increase in corporate tax rates lowers the after-tax return on equity investment. Households, facing lower after-tax returns, save less which in turn decreases investment and the capital stock.

Table 3 shows the economic effects of the AJP's tax provisions, considered without the proposal's spending increases.

Table 3. Economic Effects of the AJP's Tax Provisions, 2031-2050

*Percent Change from Baseline*

<b>Year</b>	<b>GDP</b>	<b>Capital Stock</b>	<b>Average Hourly Wage</b>	<b>Hours Worked</b>	<b>Government Debt</b>
2031	-0.59	-1.76	-0.64	0.05	-6.60
2040	-0.56	-1.76	-0.67	0.10	-9.90
2050	-0.49	-1.52	-0.47	-0.02	-11.16

Though the revenues raised by the AJP's tax provisions decrease government debt by 11.16 percent in 2050, the resulting crowding in of capital is outweighed by the direct investment disincentives described above. On net, by 2050 the capital stock ends up 1.52 percent smaller, and GDP is 0.49 percent lower, than under the current law baseline.

***The Full AJP***

The overall macroeconomic effects of enacting the AJP, including both its spending and tax provisions, are shown in Table 4.

Table 4. Economic Effects of the American Jobs Plan, 2031-2050

*Percent Change from Baseline*

<b>Year</b>	<b>GDP</b>	<b>Capital Stock</b>	<b>Average Hourly Wage</b>	<b>Hours Worked</b>	<b>Government Debt</b>
2031	-0.9	-3.0	-0.7	-0.1	1.7
2040	-0.8	-3.1	-0.9	0.1	-3.4
2050	-0.8	-3.0	-0.8	0.0	-6.4

Initially, federal debt increases by 1.7 percent by 2031, as new spending in the AJP outpaces new revenues raised. After the AJP's new spending ends in 2029, however, its tax increases persist—as a result, federal debt ends up 6.4 percent lower by 2050, relative to the current law baseline. Despite the decline in government debt, the investment-disincentivizing effects of the AJP's business tax provisions decrease the capital stock by 3 percent in 2031 and 2050. The decline in capital makes workers less productive despite the increase in productivity due to more infrastructure, dragging hourly wages down by 0.7 percent in 2031 and 0.8 percent in 2050. Overall, GDP is 0.9 percent lower in 2031 and 0.8 percent lower in 2050.

**Appendix A**

## Table A.1 Year-By-Year Conventional Revenue Estimates for the American Jobs Plans, Fiscal Years 2032-2036

*Billions of dollars, Change from Current-Law Baseline*

	<b>2022-2031</b>	<b>2032</b>	<b>2033</b>	<b>2034</b>	<b>2035</b>	<b>2036</b>	<b>2022-2036</b>
Set the Corporate Tax Rate at 28%	891.6	113.1	116.2	119.2	123.2	126.3	1,489.6
Set the Rate on GILTI at 21%; Eliminate the Deduction for Tangible Returns; Assess Country-By-Country; Prevent Inversions	727.7	93.5	95.5	99.5	102.7	106.8	1,225.7
Eliminate Deduction for Foreign Derived Intangible Income	259.7	51.4	53.8	57.1	58.6	60.5	541.1
Enact A Minimum Tax on Large Corporations' Book Income	183.6	28.9	30.0	31.2	32.5	33.7	339.9
Eliminate Tax Preferences for Fossil Fuels	32.7	4.1	4.3	4.5	4.7	4.8	55.1
<b>Total</b>	<b>2,095.3</b>	<b>290.9</b>	<b>299.8</b>	<b>311.5</b>	<b>321.7</b>	<b>332.2</b>	<b>3,651.4</b>

*This analysis was conducted by [Alex Arnon](#), [Marcos Dinerstein](#), [Jon Huntley](#), and [John Ricco](#) under the direction of [Richard Prisinzano](#) and [Efraim Berkovich](#). Prepared for the website by [Mariko Paulson](#).*

1. Stacking individual tax changes before corporate changes is a standard budget scoring convention. [↩](#)