

The Bridge to Prosperity

Reverse Reckless Cuts, Restore Our Infrastructure, and Revive Jobs



AUTHORS

Nick Schwellenbach, former Senior Fiscal Policy Analyst

Katherine McFate, President and CEO

Jessica Schieder, Fiscal Policy Associate

CONTRIBUTORS

Scott Klinger, Director of Revenue and Spending Policies

Brian Gumm, Communications Director

ACKNOWLEDGEMENTS

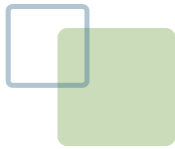
The Center for Effective Government's work is made possible by the generous support of the Bauman Foundation, C.S. Fund, Ford Foundation, Open Society Foundations, Rockefeller Brothers Fund, Scherman Foundation, Stewart R. Mott Foundation, and the individuals and other organizations who contribute to our work.

ABOUT THE CENTER FOR EFFECTIVE GOVERNMENT

The Center for Effective Government works to build an open, accountable government that invests in the common good, protects people and the environment, and advances the national priorities defined by an active, informed citizenry.

Individuals and organizations wishing to quote, post, reprint, or otherwise redistribute this report, in whole or in part, are permitted to do so if they provide attribution to the Center for Effective Government as the original publisher. To contribute to the Center for Effective Government, please visit <http://community.foreffectivegov.org/donate>.

This report was originally released in December 2013. It was updated and re-released in May 2014. We wish to thank former staff member Nick Schwellenbach for his contributions in preparing the original version of this report. For a graphical representation of many of the report's proposals, visit <http://www.foreffectivegov.org/generating-jobs-making-america-stronger>.



The Bridge to Prosperity

**Reverse Reckless Cuts, Restore Our
Infrastructure, and Revive Jobs**

TABLE OF CONTENTS

Executive Summary	1
A Slow-Rolling Crisis	3
Our National Infrastructure Needs Work	7
Bridges	7
School Repairs and Contruction	9
Levee and Dam Repairs and Contruction	10
Clean Water and Wastewater Treatment	11
Roads	12
Public Investments Save Money, Build for the Future, and Create Jobs	14
Paying for Infrastructure Investments	15
Conclusion: Critical Needs Can't Wait	18
Appendix 1: The Multiplier Effects of Different Kinds of Government Activity	20
Appendix 2: Estimated Employment Effects of Direct Public Spending	21

EXECUTIVE SUMMARY

The United States is facing a growing infrastructure crisis and a lingering jobs crisis.

Most of America's infrastructure was built in the decades directly after World War II. Each day in America, more than 700 water mains break. Seventeen percent of water pumped by municipal pumping stations never reaches consumers' faucets – a waste of 2.4 trillion gallons of precious water each year. Potholes on the nation's roads cost the average family \$355 in additional car repairs annually, deficient roads and bridges will cost businesses an estimated \$43 billion a year in transportation delays and shipment rerouting, and too many children attend schools with leaky roofs, rattling windows, and decrepit plumbing.

Five years into the economic recovery, nearly ten million Americans remain unemployed, more than a third of them for more than six months. There's only one open job for every three people who want to work.

A large portion of America's infrastructure in the U.S. is funded by federal monies. Despite the obvious need for better infrastructure and for more jobs, Congress has failed to invest in important infrastructure repairs that our communities need. According to the American Society of Civil Engineers, it would take a sustained annual investment of \$125 billion a year to bring our roads, bridges, dams, levees, water systems and sewers, and school buildings up to 21st century standards. Making that sort of investment would create 2.5 million good new jobs and would ensure U.S. cities can compete with those in other modern nations.

We can invest in infrastructure and jobs if we recapture the \$150 billion of tax revenue that leaks out of the Treasury every year, by plugging the corporate tax loopholes that wealthy individuals and prosperous multinational corporations use to avoid paying taxes. We need to make sure those who benefit most from the public structures and services provided by the federal government pay their fair share of the costs of keeping our nation's infrastructure in good shape.

Invest now, build a platform for business growth, and create jobs in the bargain. To build and maintain the public structures that make private economic activity possible, the federal govern-

ment should increase spending on programs that pave the way for future growth. Such investments would spur immediate job growth, creating a “virtuous circle” of more money circulating in the economy, more job creation, and more tax dollars flowing in to federal, state, and local governments from sales taxes, payroll taxes, and income taxes. Just making needed investments in the five critical areas below could create over 2.5 million new jobs.

	Annual Increased Investment Needed	Estimate of Construction and Supplier Jobs Created	Estimate of Jobs in Communities Indirectly Supported	Job Creation Potential of Public Investments
Bridges	\$8.0 Billion	109,600	41,600	151,200
Schools	\$10.0 Billion	140,000	53,000	193,000
Levees & Dams	\$11.5 Billion	196,100	73,600	269,700
Clean Water	\$15.9 Billion	203,000	79,000	282,000
Roads	\$79.0 Billion	1,200,000	410,800	1,610,800
Totals	\$124.4 Billion	1,848,700	658,000	2,506,700

It’s time to focus on our investment deficit, build for the future, and get America working again.

A SLOW-ROLLING CRISIS

America has an investment deficit.

Almost ten million Americans are looking for work, and another 7.5 million are working part-time when they want full-time work.¹ Young people are having an especially difficult time. We have close to the highest levels of long-term unemployment in 60 years: over 35 percent of the unemployed have been unable to find work for over six months. Many people have become discouraged and have simply dropped out of the job market altogether (the employment-to-population ratio for 25-to-54-year-olds has fallen from 82 to 76 percent since 2000). In all, 20 million Americans – an estimated 12.3 percent of the labor force – want full-time work but can't find it.² And at the current pace of job creation, the nation won't see unemployment levels below six percent until the end of the decade.³ With an undersupply of job opportunities and oversupply of workers, it is not surprising that employed Americans have seen their wages stagnate.

In survey after survey, the American people say they want the government to do more to improve the economy.

And the government *can* do more to encourage job creation. The American Reinvestment and Recovery Act of 2009 staunched the hemorrhaging of jobs that was still occurring in early 2009, and over the next two to three years, the spending created or saved at least 1.5 million and perhaps over 4 million jobs.⁴

Federal policymakers sometimes increase public spending during a recession to increase the flow of money circulating through the economy. Money flowing into the economy has a “multiplier” effect. For example, if a construction company is hired to build a bridge, the company may directly hire new workers (direct new job creation) and the concrete company that supplies the builder may also hire new workers (direct job creation); the workers in both companies spend

1 Bureau of Labor Statistics, “Employment Situation Summary,” May 2, 2014. Available online at: <http://www.bls.gov/news.release/empsit.nr0.htm>.

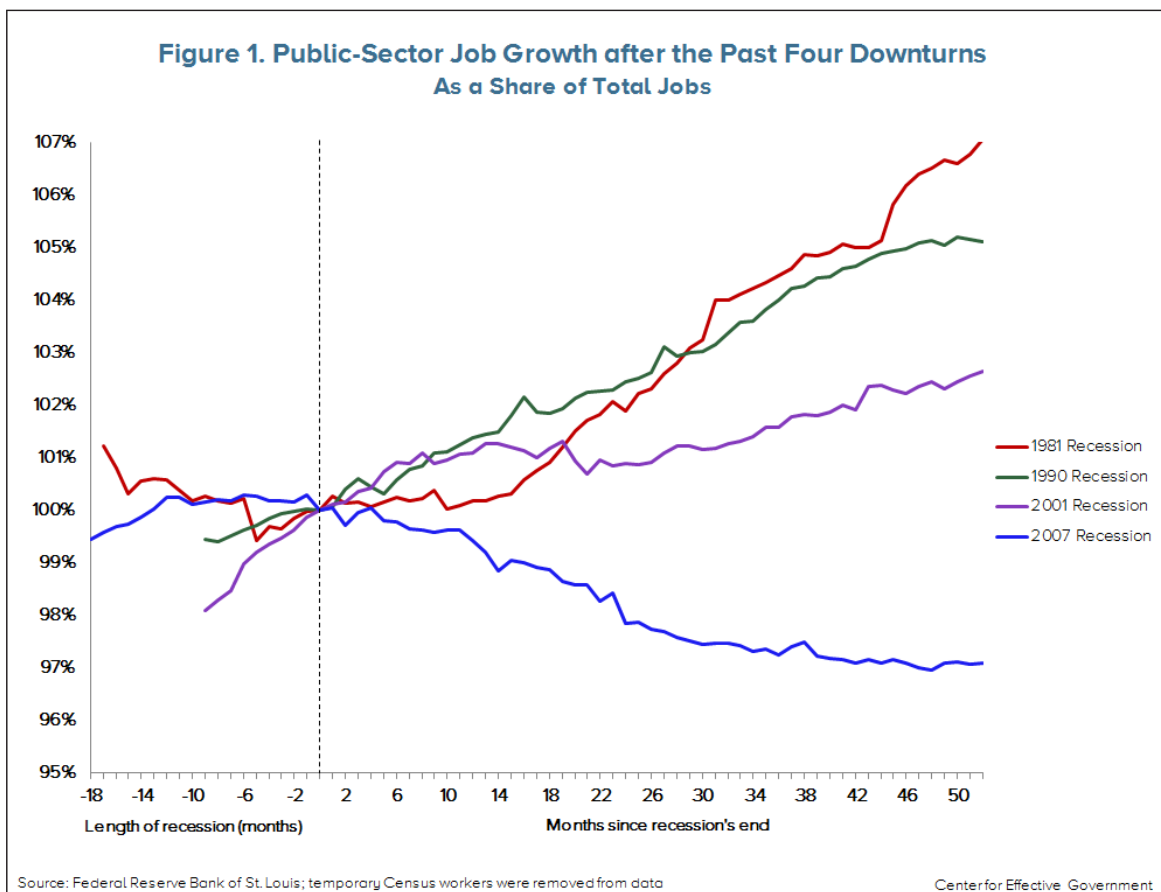
2 10.9 million are unemployed, 7.7 million involuntarily part-time and 2.1 million are discouraged workers. <http://www.bls.gov/news.release/empsit.nr0.htm>.

3 Center on Budget and Policy Priorities, “Chart Book: The Legacy of the Great Recession,” updated May 9, 2014. Available online at: <http://www.cbpp.org/cms/index.cfm?fa=view&id=3252>.

4 The Washington Post reviewed nine of the best studies on the Recovery Act as of August 2011. Most of the studies found that the stimulus worked. http://www.washingtonpost.com/blogs/wonkblog/post/did-the-stimulus-work-a-review-of-the-nine-best-studies-on-the-subject/2011/08/16/gIQAThbibJ_blog.html. <http://s2.epi.org/page/-/pdf/071410-bivenstestimony.pdf>.

their salaries on food, gas, and consumer goods, recirculating the money and supporting jobs in the retail establishments they frequent (indirect job creation). The more any dollar moves through the economy, the bigger the estimated “multiplier effect” of that dollar. Conversely, when public spending contracts, economic activity slows, draining jobs from the economy.

In previous downturns, government kept public-sector workers employed as long as possible and expanded hiring well into economic recoveries, bolstering them. (See Figure 1 below.) In the 1981 recession – the previous deepest recession – President Reagan dramatically expanded military spending; furthermore, state and local governments expanded hiring in the years after, as well. This Cold War build-up stimulated overall economic growth and a strong recovery ensued, thanks in large part to public-sector spending.⁵



⁵ <http://www.nytimes.com/1985/06/19/business/economic-scene-is-reagan-a-keynesian.html>.

But after 2010, anti-tax, anti-government candidates took over the U.S. House of Representatives and many governors' offices and state legislatures, and instead of expanding public spending, they cut it. Today, the ratio of public employees (federal, state, and local) to the U.S. population is lower than at any time since the late 1960s.

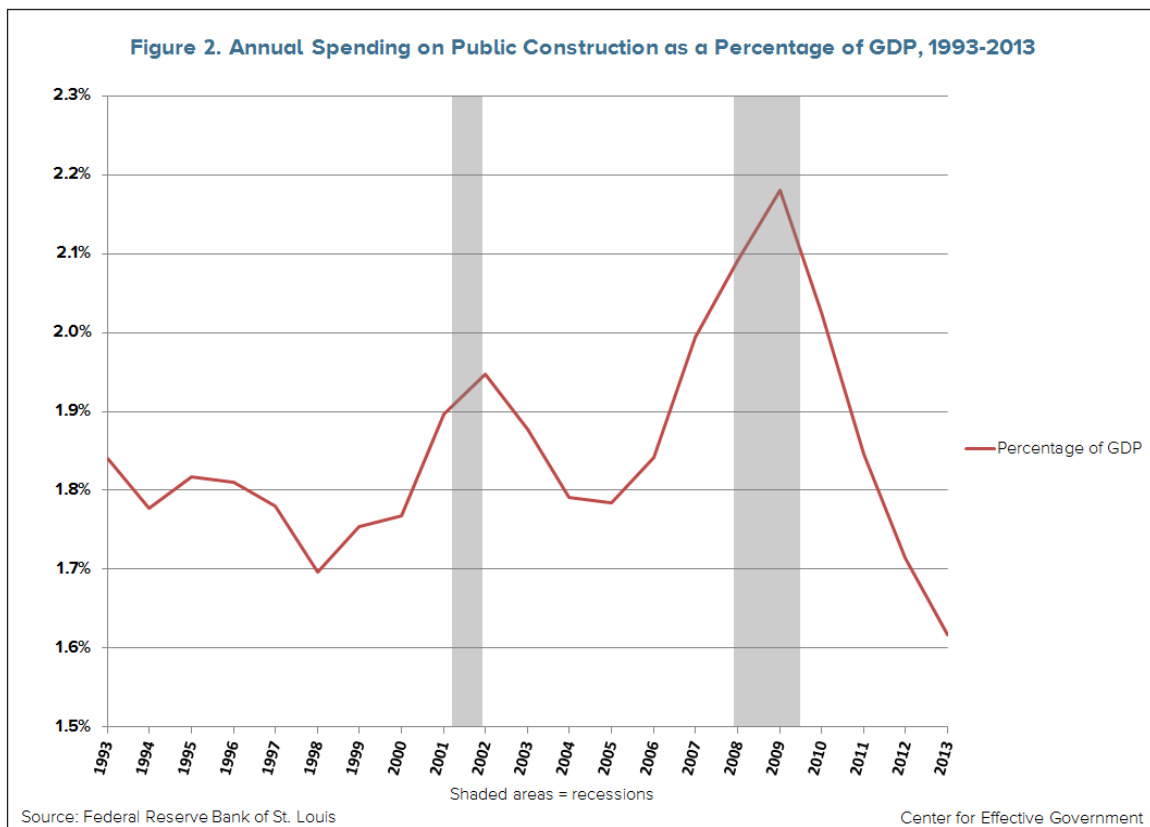
In 2013, the American Society of Civil Engineers (ASCE) released its **latest report card on the state of America's infrastructure; the overall grade: D+.**⁶ Our public infrastructure is critical to the success of the broader economy and the nation. Infrastructure is more than just roads and bridges; it includes airports and air traffic control systems, power generation, water systems, ports, the handling and disposal of waste, and adequate schools.

A modern infrastructure is a necessary though not sufficient condition for economic success. As a percentage of its economy, Australia spends four times more than the U.S. on infrastructure, Canada nearly five times more. Germany has recently adopted a five-year, more than \$50 billion infrastructure investment plan, despite an economy one fifth the size of ours.⁷ These countries are modernizing their infrastructure even though their transportation systems are generally newer than America's.

⁶ <http://www.infrastructurereportcard.org/a/#p/overview/executive-summary>.

⁷ http://blogs.asce.org/americas-infrastructure-crisis-isnt-overstated/?utm_source=rss&utm_medium=rss&utm_campaign=americas-infrastructure-crisis-isnt-overstated.

Unfortunately, spending on public construction dropped dramatically (after a short-lived boost from the American Recovery and Reinvestment Act), as Figure 2 shows.



Without greater investment in infrastructure, the U.S. will lose out on more than 3 million jobs between now and 2020, according to the ASCE.⁸ The need to invest in infrastructure is an area that unites Americans regardless of their other political beliefs. The American Conservative Union has advocated for more infrastructure spending: “These investments are core, constitutional federal responsibilities and should be so treated in the allocation of federal resources.”⁹ The U.S. Chamber of Commerce has stated, “Long term underinvestment in transportation infrastructure is having an increasingly negative effect on the ability of the United States and its industries to compete in the global economy.”¹⁰ The Obama administration, the Congressional Progressive Caucus, the Economic Policy Institute, and the AFL-CIO have also called for more infrastructure investments. Since construction employment remains significantly below pre-recession levels, it seems a propitious time for such investments.

⁸ <http://www.asce.org/failuretoact/>.

⁹ <http://www.nytimes.com/2013/04/10/us/politics/american-conservative-union-fighting-spending-cuts.html?pagewanted=all&r=0>.

¹⁰ <http://voices.washingtonpost.com/ezra-klein/EMBARGOED%20CEA%20Treasury%20Infrastructure%20Report.pdf>.

OUR NATIONAL INFRASTRUCTURE NEEDS WORK

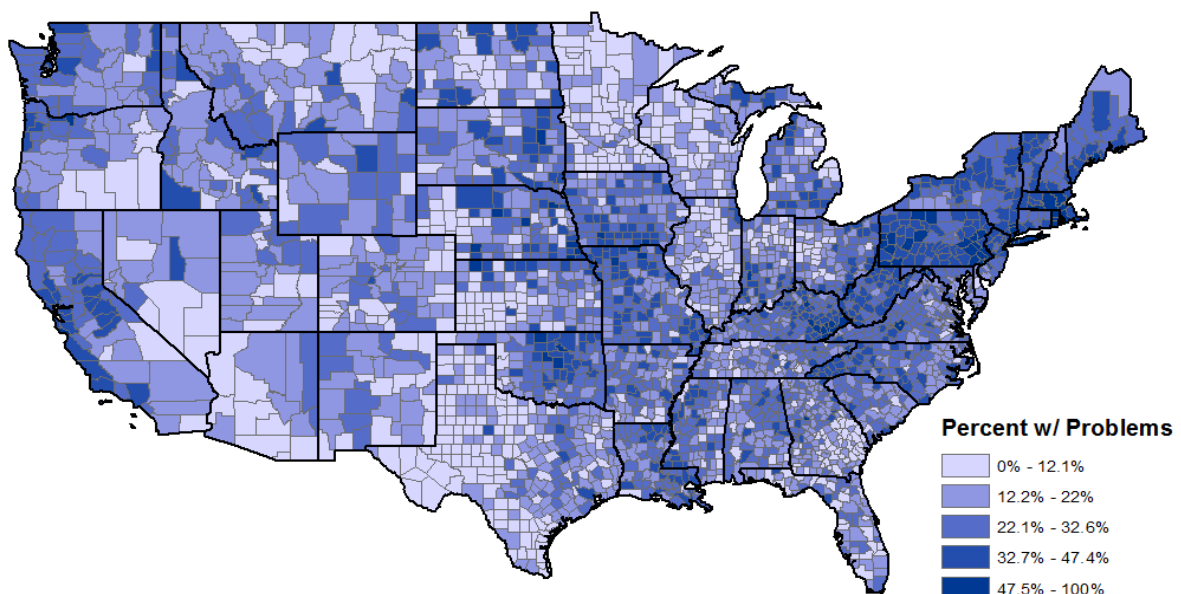
This report examines five key areas where the need for investment is clear and urgent.

Bridges

The Interstate 5 (I-5) highway bridge collapse in 2013 – which sent cars and people into the Skagit River – in northwest Washington State should be a stark reminder that we urgently need to expand investments aimed at repairing and upgrading our nation's bridges. **One in nine bridges is considered structurally deficient.**

The American Society of Civil Engineers' report notes that “the average age of the nation's 607,380 bridges is currently 42 years.” Three states – Iowa, Oklahoma, and Pennsylvania – have over 5,000 bridges deemed structurally deficient. To repair or rebuild these structurally deficient bridges by 2028, the Federal Highway Administration estimates we would need to invest \$20.5 billion annually. Currently, only \$12.8 billion is being spent on bridges each year.

Bridges with Structural Problems As a Percentage of All Bridges in a County, 2012



Bad bridges burden the economy. Businesses have to pay more for transportation when 18-wheelers have to go on long detours to avoid structurally deficient bridges, leading to delays in shipping and higher prices for consumers and/or smaller profits for companies. *The Wall Street Journal* recounted several examples of costs of deficient bridges for businesses.

Donald Maier, senior vice president for a Lancaster, Pa. firm making floor and ceiling tiles, reported that a fully loaded truck trailer traveling to or from its Marietta, Pa., ceiling tile plant would have a 25-mile detour to avoid a two-lane state highway bridge will no longer accommodate fully loaded heavy-duty trucks. The company projected the additional miles would add about \$200,000 to \$300,000 a year to the plant's transportation costs.

Bob Wilson, owner of a 20-vehicle truck fleet based in Smithton, Pa., figures the restricted bridges would add 100 miles to a 600-mile trip, increasing the cost of the trip by 10% or \$100. He anticipates he will only be able to recover some of the additional cost from his customers.

When the state of Indiana demolished a 1.25-mile long bridge because "it was too expensive to replace and too deteriorated to remain open," Safety-Kleen Inc., a motor oil recycling plant operating in an industrial corridor in East Chicago, Ind., said the added time from traffic bottlenecks for the tank trucks coming to their plant would cost the company \$250,000 a year.¹¹

We need to increase bridge investments by \$8 billion annually to address the identified \$76 billion in needs for deficient bridges across the United States. An additional \$8 billion spent to build and repair bridges each year would support the creation of up to 109,600 construction jobs and jobs with the suppliers of materials. The money spent by these workers would support an additional 41,600 jobs, according to estimates.

The costs of failing to invest in infrastructure are not simply monetary. Lives are at stake. In 2007, when the I-35W bridge collapsed in Minnesota, 13 people died.

¹¹ <http://online.wsj.com/news/articles/SB10001424127887324807704579087332770323224>.

School Repairs and Construction

More than 50 million children and staff learn, work, and live much of their waking hours inside the walls of America's nearly 100,000 public elementary, middle, and high schools in communities all across the country. But nearly half of these public school buildings were built for the Baby Boomer Generation between 1950 and 1969 – those children are now adults, and many are retiring.¹² The average age of a U.S. school is over 40 years old.¹³ Some buildings are more than 100 years old. Many of the buildings have asbestos, mold, other indoor air problems, lead paint, poor lighting, and improper heating and air conditioning. Many are also overcrowded, lacking enough room for the student populations they already serve and that are projected to grow even further in the coming years.

While thousands of schools were built in the last decade and a half, the nearly 90,000 existing schools' maintenance, repair, and renewal needs were largely unaddressed.¹⁴ School districts have been deferring maintenance for years – and the tab is growing. “Nationally, using a conservative estimate and extremely modest standards, **deferred maintenance in our Pre-K-12 public school buildings has grown from \$216 to \$271 billion**” since the late 1990s, according to the 21st Century School Fund in 2011.

Poor building conditions cause sickness in children and in teachers and support staff, which in turn leads to missed days at school and poorer educational performance. For instance, in Charlotte, North Carolina, over 70 schools had confirmed cases of mold, with children and faculty members coming down with respiratory ailments, according to a local news station's investigation in November.¹⁵

The condition of school buildings can impact a child's education, as well. Poor lighting, bad acoustics, and inadequate temperature controls have a “negative impact upon student performance in buildings where deficiencies in any of these features exist,” according to a review of research literature by Glen I. Earthman, a professor of educational administration at the Virginia Polytechnic Institute. School facilities that are over capacity with too many students

12 <http://www.infrastructurereportcard.org/a/#p/schools/conditions-and-performance>.

13 <http://www.cisforegon.org/about/documents/Economics%20of%20High-Performance%20Facilities.pdf>.

14 <http://www.21csf.org/csf-home/Documents/RepairforSuccessAugust2011.pdf>.

15 <http://www.wsocvtv.com/news/news/special-reports/whistleblower-9-concerns-continue-over-mold-cms-sc/nbw6N/>.

contribute to poorer performance for students, particularly those from minority and low-income backgrounds.¹⁶

“National spending on school construction has diminished to approximately \$10 billion in 2012, about half the level spent prior to the recession,” according to the American Society of Civil Engineers.¹⁷ **Simply bringing this level back up to pre-recession levels – doubling it with an additional \$10 billion for a total of roughly \$20 billion a year – would create up to an estimated 140,000 jobs in the construction and building maintenance/repair industries and among their suppliers. An additional 53,000 jobs would be supported by these workers’ spending in their communities.**

Fixing old schools and building new ones would spur significant job creation, as well as be an investment in our children and in the future health of our economy and society.

Levee and Dam Repairs and Construction

More than 14 million Americans live or work in areas protected by nearly 15,000 miles of federally maintained levees. **The average levee in the federal system is 55 years old.** Of the levees that have been reviewed by engineers, **22 percent were found to be in unacceptable condition** and 69 percent more in minimally acceptable condition.¹⁸

The impacts of levee failure are all too clear. Recent examples include a June 2013 levee breach that led to flooding throughout Missouri and 2008 disasters in Nevada and Indiana, which forced families to abandon their homes as their towns flooded. The 2005 levee failures that flooded New Orleans after Hurricane Katrina are another perfect example. The floods killed almost 1,500 people, left tens of thousands homeless, and wiped out small businesses that have never recovered.

Restoring these levees to fully acceptable condition would cost an estimated \$100 billion over a number of years. Making these investments now would not only protect families and communities from dangerous and destructive floods and be cheaper than paying later, they would create much-needed new jobs that would help lift the economy.

¹⁶ <http://www.escholarship.org/uc/item/5sw56439#page-1>.

¹⁷ <http://www.infrastructurereportcard.org/a/#p/schools/overview>.

¹⁸ <http://www.infrastructurereportcard.org/a/#p/levees/conditions-and-capacity>.

The American Society of Civil Engineers has proposed a **five-year, \$50 billion program investing in repairing and building levees**. It is estimated that \$10 billion a year spent on **building and fixing levees and flood controls will help create and support over 170,000 jobs in construction, engineering, and at the companies supplying the project with materials**. Up to another 64,000 jobs would be further created by spending by workers in local communities.

There are also around **14,000 dams in the U.S. classified as “high hazard,”** meaning in their current state, they are anticipated to fail at some point, causing fatalities – this is an increase from about 10,000 ten years ago. The American Society of Civil Engineers points to one example of the dangers: “[T]he Iowa Lake Delhi dam failure in 2010 cost an estimated \$50 million in damages and \$120 million in economic losses, and swept away half a dozen homes.”

The Association of State Dam Safety Officials estimated in 2013 **“the total cost of rehabilitating the nation's high-hazard potential dams at approximately \$18.2 billion** (\$11.2 billion for publicly-owned and \$7 billion for privately-owned)” over 12 years.¹⁹ **At \$1.5 billion a year, up to 26,100 jobs would be directly created related to building and repairing dams, as well as in the companies supplying materials. Potentially another 9,600 jobs would be created in local communities** from the spending by construction workers and others more directly involved in the dam repair and building projects.

Clean Water and Wastewater Treatment

America needs to invest substantial resources in fixing and repairing its vast drinking water and wastewater infrastructure system. Large parts of the infrastructure are nearing the end of their useful lives with a **projected quadrupling of investment needed to replace pipes in the coming decades**. The consequences are many-fold, according to the American Society of Civil Engineers: **“Failures in drinking water infrastructure can result in water disruptions, impediments to emergency response, and damage to other types of infrastructure. Broken water mains can damage roadways and structures and hinder fire-control efforts. Unscheduled repair work to address emergency pipe failures may cause additional disruptions to transportation and commerce.”**

¹⁹ http://damsafety.org/media/Documents/PRESS/NationalDamSafetyOverview_ASDSO2013.pdf

Poor wastewater treatment infrastructure – namely piping systems – is responsible for the release of 900 billion gallons of untreated sewage into rivers and streams each year. An examination of a large sampling of America's streams found that 18 percent were unfit as a public water sources, 10 percent were unusable for agricultural purposes, 36 percent were bad for fish and wildlife, and 28 percent were unfit for human recreation such as swimming, according to an Environmental Protection Agency report from 2009. This drives up costs for cities and towns that have to spend more to access from water farther away, drives up costs for farmers who need to irrigate crops, and impacts the recreation and tourism industries.

The American Society of Civil Engineers found that if the current rate of government investment in this area is maintained – about \$1.38 billion a year – only eight percent of the Environmental Protection Agency's identified needs will be met over the next 20 years. If investments in this area increased to \$17.25 billion a year – **an increase of nearly \$15.9 billion over current annualized levels – then new piping would be laid and systems fixed and installed and up to 203,000 new jobs** could be created directly in construction and repair and in companies supplying materials, according to estimates. Another 79,000 jobs could be created in the local communities when those workers spend money.

Roads

About one-third of America's roads and highways are in poor or mediocre condition. Although the Recovery Act put a dent in the problem, "the Federal Highway Administration estimates that **\$170 billion in capital investment would be needed on an annual basis** to significantly improve conditions and performance," states the American Society of Civil Engineers.

"Having a transportation system that becomes less efficient hurts our ability to compete," David Ellis, a research scientist for the Texas A&M University's Transportation Institute, told *The Wall Street Journal*.²⁰ Insufficient road infrastructure causes traffic congestion and leads to more money spent on gasoline and lost time. **The average American lost 34 hours of time in a year in 2010 due to traffic.** That same year, \$101 billion in gas was wasted as people sat in traffic and congestion.

20 <http://online.wsj.com/news/articles/SB10001424127887324807704579087332770323224>.

Without better roads, U.S. companies will pay \$430 billion more in costs by 2020 and potentially lose \$1.7 trillion in sales. Deficient pavement affects safety, damages cars, and leads to trucks having to make detours that can drive up costs; **bad pavement costs drivers and businesses an estimated \$67 billion annually.**

While deaths on roads have dropped significantly over the last decade, they still exceed 30,000 a year. “Statistics indicate that roadway conditions are a significant factor in approximately one-third of all U.S. traffic fatalities,” according to the American Society of Civil Engineers. Furthermore, “these **crashes cost the U.S. economy \$230 billion each year.** Reducing exposure to obstructions, adding or improving median barrier systems, and widening lanes and shoulders offer opportunities to reduce crashes, injuries, and fatalities.”

The federal Highway Trust Fund, which provides states and localities more than \$50 billion a year in major highway, bridge, and transit project funding, could see its revenues dip to below \$4 billion by July, delaying 112,000 roadway projects and 5,600 transit projects, costing the economy as many as 700,000 construction jobs over the next year. The trust fund has been financed by receipts from an 18.4 cents-per-gallon gas tax and a 24.4 cents-per-gallon diesel fuel tax. Revenues have seriously lagged behind highway project expenditures, and the government has had to shift money from other accounts to keep the fund solvent.

The nonpartisan Congressional Budget Office told senators recently they would have to either increase the federal gas tax by 10 or 15 cents per gallon – a nonstarter in an election year – or find between \$13 billion and \$18 billion per year from other sources to maintain current infrastructure spending projects if Budget Control Act spending caps stay in place.

About \$91 billion annually is currently being spent on highway repair and construction. **Up to 1.2 million jobs in construction, design, and in the material supply firms could be created if an additional \$79 billion a year is allocated to get America’s road infrastructure on a world-class footing.** Up to another 410,800 estimated jobs in communities could be created when those road workers spend their paychecks.

Public Investments Save Money, Build for the Future, and Create Jobs

The following table summarizes urgent investments that need to be made in our public infrastructure. We shouldn't wait until more bridges fall, more kids get sick from the schools they attend, and more floods destroy communities and farm land. Public safety is at stake and economic growth is at risk.

	Annual Increased Investment Needed	Estimate of Construction and Supplier Jobs Created	Estimate of Jobs in Communities Indirectly Supported	Job Creation Potential of Public Investments
Bridges	\$8.0 Billion	109,600	41,600	151,200
Schools	\$10.0 Billion	140,000	53,000	193,000
Levees & Dams	\$11.5 Billion	196,100	73,600	269,700
Clean Water	\$15.9 Billion	203,000	79,000	282,000
Roads	\$79.0 Billion	1,200,000	410,800	1,610,800
Totals	\$124.4 Billion	1,848,700	658,000	2,506,700

PAYING FOR INFRASTRUCTURE INVESTMENTS

First, Reverse the Automatic Cuts: Repeal the Budget Control Act that Forces Spending Cuts to Infrastructure and Other Discretionary Programs

The Budget Control Act of 2011 (BCA) and automatic budget cuts have already slowed growth and forfeited 1.2 million jobs. By 2010, only two years after the worst recession since the Great Depression, every level of government started cutting spending. Overall, federal discretionary spending, including spending on infrastructure, is at its lowest level in 40 years: we currently spend only seven percent of the economy on infrastructure, compared to an average of 8.4 percent over the last 40 years.

Then Close Loopholes to Pay for Potholes

Adopt Tax Reform that Ensures Corporations and Wealthy Individuals Help Pay for Infrastructure that Benefits Their Businesses and the National Economy

Given our continuing high rates of unemployment and stagnant wages, many Americans want to see U.S. corporations and wealthy individuals paying their fair share of taxes and contributing more to help the nation's economy. We can raise significant revenue for a sustained program of infrastructure investment and job creation from profitable corporations and America's wealthiest individuals by adopting the following reforms to the corporate and individual tax codes.

End Deferral of Taxes on Offshore Profits (would raise \$59 billion per year)

In the 1960s, the Kennedy administration, eager to support U.S. businesses expanding into foreign markets, adopted a rule that allowed U.S. taxes on foreign income to be put off, or deferred, until those funds were brought back to the U.S. While this rule made sense at the time, modern corporations use it as the major tool to avoid paying U.S. taxes.

U.S. multinational corporations have amassed more than \$2 trillion of offshore profits, much of it in tax havens and all of it untaxed in the U.S. While there are many proposals for stemming this outflow of profits and jobs, none is more effective than simply ending deferral. If this were done, corporations would report their offshore income on their U.S. tax returns and then get a full credit for all taxes paid to a foreign government. If they are operating in a country with a corporate tax system similar to ours, they would owe little to no additional tax at home. If, however, they are sheltering their income in a tax haven, they would be responsible for the full American tax rate. Sen. Bernie Sanders (I-VT) and Rep. Jan Schakowsky (D-IL) have introduced the Corporate Tax Fairness Act, which would end the deferral provision.

Adopt a Wall Street Sales Tax (could raise \$174-354 billion a year)

Excessive speculation and lax oversight resulted in Wall Street excesses crashing the economy in 2008. While communities across America are still struggling to fully recover, Wall Street is once again thriving – paying its employees more than \$1 billion in bonuses in 2013. Hundreds of billions of dollars could be generated by establishing a small sales tax on trades of stocks, bonds, and other financial assets like futures contracts and credit default swaps (the latter played a powerful role in the 2008 financial collapse). The European Union will begin to impose a financial transaction tax later in 2014. In contrast, Congress has failed to act, although several bills have been introduced in Congress that would impose different levels of tax. We believe that at least a portion of this revenue should be dedicated to increased federal aid to states and cities. States and cities were particularly hard hit by the 2008 economic crash, and it would be fitting for Wall Street's excessive trading profits to be channeled to rebuilding local economies.

Tax Wealth Like Work (could raise \$161 billion a year)

If you invest for a living in America, you are taxed at half the rate you would be if you worked for a living. Discounted tax rates on capital gains (the money one makes buying and selling stocks and other assets) cost the U.S. Treasury \$161 billion in 2013. Each year, the Internal Revenue Service (IRS) publishes detailed data on the taxes paid by the 400 richest Americans. In 2009 (the most recent year studied – the data is delayed because taxpayers have three years to file amended tax returns), the average income of a top 400 taxpayer was \$202 million. The collective income of

these 400 people exceeded \$7 trillion. Among the top 400, \$49 billion of their income came from dividends and capital gains taxed at reduced rates, and just \$7 billion came from wages or salaries.

Because the wealthy rely so heavily on the interest earned on their financial assets, instead of working for a salary, and because earnings from wealth are taxed at a lower rate than earnings from wage work, the richest 400 taxpayers paid an effective tax rate of just 19.9 percent.

CONCLUSION: CRITICAL NEEDS CAN'T WAIT

The public investments described above have to be made – now or in the future. They are essential to the health of the economy and the well-being of the nation. They cannot and should not be put off indefinitely. These investments would cost less if made when interest rates are historically low and ready labor is available, as they are today. To make these investments now would invigorate the economy and encourage more robust job creation. Investments in education, health care, and infrastructure have been shown to have a rate of return of as high as 30 percent over a 20-year period.²¹

Progressive groups like the Economic Policy Institute, Center for Economic and Policy Research, Center for American Progress, the AFL-CIO, the Congressional Progressive Caucus, and the White House have been calling for new investments in infrastructure (as well as other priorities such as clean energy research) since 2009.²² But even the American Conservative Union has written, "These investments are core, constitutional federal responsibilities and should be so treated in the allocation of federal resources." And the U.S. Chamber of Commerce has warned that "long term underinvestment in transportation infrastructure is having an increasingly negative effect on the ability of the United States and its industries to compete in the global economy." The consensus for infrastructure investment is broad and deep. Support for these investments crosses ideological divides.

America is still the wealthiest country on earth, and we can afford to do this. The federal government can pay for these investments by closing tax provisions that allow corporations to offshore their profits, avoid paying taxes, and shift jobs to other countries; by a Wall Street sales

21 <http://www.epi.org/publication/bp338-public-investments/>.

22 For instance: <http://www.epi.org/publication/back-to-work-budget-analysis-congressional-progressive/>. Economic Policy Institute analysis of the Congressional Progressive Caucus's 2013 'Back to Work' Budget Job Package \$2.5 trillion over 10 years; the spending would be front loaded, that is, heaviest in the early years. Of the \$2.5 trillion, \$1.1 trillion would be on infrastructure needs identified by the American Society of Civil Engineers.

<http://www.prosperityforamerica.org/read-the-report/>. The AFL-CIO, Economic Policy Institute, Center for Community Change, SEIU, National Council of La Raza, The Leadership Conference and other groups coalesced around a plan by Yale Professor Jacob Hacker and Nate Loewentheil, founder of the Roosevelt Campus Network, that called for "\$250 billion per-year investment in infrastructure projects from 2013 to 2018" and other initiatives.

<http://www.whitehouse.gov/the-press-office/2011/09/08/fact-sheet-and-overview>. President Obama's American Jobs Act proposal unveiled in 2011 would, among other things, invest \$30 billion in modernizing and fixing schools and invest \$50 billion in transportation infrastructure. This spending would be front loaded.

tax that would discourage excessive speculation and volatile trading; and by taxing wealth like work. Legislation for all these revenue raising options has been introduced. Polls show the public believes these investments are just “common sense.”

It is up to the American people to push their elected representatives for action. The results of inaction can be seen in communities – in unsound bridges, overflowing waste, decaying roads, and deteriorating school buildings. The benefits that would accrue to the American people are undeniable: clean water, stronger protections from floods and volatile weather, a safe and welcoming school environment, and a quicker, safer commute. These investments would build a strong foundation for future economic growth and invigorate current job growth to get us there.

APPENDIX 1: THE MULTIPLIER EFFECTS OF DIFFERENT KINDS OF GOVERNMENT ACTIVITY

The Congressional Budget Office estimated the impact of different kinds of activities supported under the American Reinvestment and Recovery Act. After reviewing the economics literature on the topic, they used the following estimates. This means that \$100 of federal money going to the purchase of goods or services actually generated, on average, \$150 to \$250 of economic activity as it circulated through the economy. Direct spending is the most powerful way to stimulate economic activity.²³ By contrast, a tax cut for the wealthy with a multiplier of 0.35 means for every dollar a wealthy person gets in a tax cut, only 35 cents is recirculated through the larger economy.

CBO Estimates of the Economic Activity Generated by the Recovery Act, 2009-2013*	
<i>Components of the Recovery Act</i>	<i>Midpoint-High Point Multiplier Effect</i>
Federal Purchases of Goods and Services	1.50 – 2.50
State/Local Infrastructure Transfers	1.30 – 2.20
Unemployment Insurance, Food Stamps, Student Financial Assistance, Health Insurance Assistance	1.25 – 2.10
State/Local Other Transfers	1.10 – 1.80
Two-Year Low/Middle Income Individual Tax Cut	0.90 – 1.50
One-Time Payments to Retirees	0.60 – 1.00
Extension of First-Time Homebuyer Credit	0.50 – 0.80
One-Year High-Income Individual Tax Cut	0.35 – 0.60
Corporate Tax Provisions Mostly Affecting Cash Flow	0.20 – 0.40

*The CBO included a low and high range for its estimates of the economic benefits of the Recovery Act, designed to “encompass most economists’ views.” A January 2013 paper by the International Monetary Fund’s chief economist on the “intense debate about the size of fiscal multipliers” that occurred around the world in response to the economic crisis concluded that “fiscal multipliers were substantially higher than implicitly assumed by forecasters.” <http://www.imf.org/external/pubs/ft/wp/2013/wp1301.pdf> The IMF’s 2012 Global Prospects and Policies document stated that “our results indicate that multipliers have actually been in the 0.9 to 1.7 range since the Great Recession.” This means that the CBO’s low range estimates are probably too low, so this table reflects the midpoint[1] and high ends of the CBO ranges. http://www.cbo.gov/sites/default/files/cbofiles/attachments/WorkingPaper2012-08-Effects_of_Fiscal_Policies.pdf.

See also, <http://www.fas.org/sgp/crs/misc/R42700.pdf>, p. 12.

23 The Recovery Act had extremely low rates of waste or fraud, according to its highly respected overseer Earl Devaney who led the Recovery Board. Many of its unique transparency and accountability provisions have been embraced by Republicans as well as Democrats as oversight mechanisms they would like to apply to federal spending more generally. The Digital Accountability and Transparency Act (DATA Act) “will literally track those trillions of dollars in a way not done outside the Recovery Act,” said Rep. Darrell Issa, R-CA, a sponsor of the legislation, “Quite frankly, we owe a debt of gratitude to the Recovery Board for showing us an effective system on which we could build.”

APPENDIX 2. ESTIMATED EMPLOYMENT EFFECTS OF DIRECT PUBLIC SPENDING

The Political Economy Research Institute at the University of Massachusetts-Amherst has estimated the jobs impact of \$1 billion in different government fiscal choices, most of them relating to infrastructure investment, but also spending on education (non-infrastructure, e.g. teachers), health care, military, and tax cuts.²⁴ Government spending in various areas can not only fulfill important public needs, but can create numerous jobs.

\$1 Billion invested in ...	Results in Job Creation
Education	26,700
Transportation	18,900
Inland waterways/levees	23,800
Mass transit	22,900
Repair of roads and bridges	20,300
New roads and bridges	17,500
Rails	14,700
School buildings	19,300
New institutional construction	19,600
Repair of non-residential buildings	18,900
Water	19,800
Dams	23,800
Drinking water	17,800
Waste water	17,800
Energy	16,800
Gas	21,900
Electricity generation, transmission, distribution	14,500
Solar	15,800
Wind	14,900

²⁴ http://www.peri.umass.edu/fileadmin/pdf/published_study/PERI_military_spending_2011.pdf, p. 5.

http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/green_economics/PERI_Infrastructure_Investments, p. 25.

Different methodologies and assumptions can lead to different forecasts of job creation. For instance, see pp. 58-60 for a discussion: http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/green_economics/PERI_Infrastructure_Investments. Regardless, varying estimates represent differences of magnitude; there is no disagreement with the fundamental principle that more spending or tax cuts can lead to job creation/destruction effects and that different fiscal choices of the same dollar value have different job outcomes everything else staying equal.



2040 S STREET NW, 2ND FLOOR
WASHINGTON, DC 20009

web	www.foreffectivegov.org
phone	202-234-8494
fax	202-234-8584
email	info@foreffectivegov.org
	@foreffectivegov
	facebook.com/foreffectivegov