THE Wealth REPORT

HOW INFRASTRUCTURE INVESTMENTS HELP THE ECONOMY

From cable, Wi-Fi and power outages to potholes, unstable bridges and poor ventilation in schools, infrastructure is critical for our daily needs and growth of the American economy.

Overview

The American Jobs Plan (AJP) recently proposed by President Biden is composed of $2.7 trillion in expenditures and $2.1 trillion in raised revenues over a 10-year budget window. The plan is widespread, including investments in broadband, clean water, the electric grid and high-quality housing.[1]

With the Biden plan, infrastructure is categorically expanded to comprise components that provide optimal results when developed in concert – such as new spending on transit infrastructure, research and development, and domestic manufacturing supply chains.

For example, increases in American innovation and manufacturing capabilities require adequate transportation systems to deliver raw materials and finished goods in a timely manner. Mass infrastructure investments provide good-paying jobs, but people who work those jobs also need affordable housing, as well as home- and community-based care. While schools need to be built and/or updated, students also need reliable access to internet at home in order to complete schoolwork – especially in the wake of epidemics and damages caused by extreme weather. Education is no longer conducted solely in buildings.

"Almost every day in the U.S., service providers somewhere announce, 'the power is out, the Wi-Fi is out.'"[2]

The following is an overview of some of the specifics of the proposed AJP:[3]

- Modernize 20,000 miles of highways and roads.
- Modernize 10,000 bridges.
- Establish road safety programs to reduce fatalities for cyclists and pedestrians.
- Reconnect neighborhoods divided by highway projects.
- Invest in repairing and expanding Amtrak and other public transit systems.
- Repair/build airports.
- Secure inland waterways, coastal ports and ferries.
- Clean air pollution at ports.
- Invest in spearheading the electric vehicle market, including establishing domestic supply chains and offering consumers rebates to incentivize sales.
- Replace 100% of the water-bearing lead pipes and service lines across the country.
- Establish broadband access for 35% of rural America that does not currently have service.

- Build or retrofit 2 million housing units.
- Build or retrofit veterans hospitals.
- Upgrade and build new public schools.
- Cap and seal oil and gas wells and abandoned mines.
- Fund home- or community-based care for senior citizens and people with disabilities, creating well-paying caregiving jobs with benefits (and enabling family caregivers to work).
- Invest in domestic semi-conductor manufacturing.
- Invest in research and development with a focus on clean energy.
- Provide monetary incentives for companies to create new jobs in coal communities and grow the U.S. supply chain.

How to Pay for AJP

The American Jobs Plan includes tax and spending provisions that would increase government debt by 1.7% and reduce GDP by a quarter percentage point by 2031, according to the Penn Wharton Budget Model (PWBM). However, the PWBM projects that by 2050, government debt will fall by 6.4% and GDP will decrease by 0.8%. The Wharton analysts say the decline in GDP is not a big detriment if it results from infrastructure enhancement.[4]

In fact, much of the investment represents a form of insurance from otherwise catastrophic outcomes that can be wholly avoidable. While repairing and rebuilding doesn't necessarily produce tangible returns, there are benefits not captured in GDP measurements. Overall, the investment is necessary to upgrade essential buildings and services so that the economy can grow on multiple fronts. Clean water, air and ventilation, as well as safe roads and buildings, are essential for public health.

The Biden plan proposes funding via higher corporate taxes, including:[5]

- Increasing the corporate tax rate to 28%
- A minimum tax on corporate book income (publicly reported on financial statements)
- A higher tax rate on foreign profits of U.S. companies
- Eliminating tax deductions for certain types of foreign income
- Eliminating tax preferences for fossil fuels

"The decline in GDP isn't necessarily going to mean that we are worse off as a society. Much of the spending is to keep existing infrastructure in running condition and to provide insurance against unforeseen setbacks."[6]

The Cost of Not Fixing Infrastructure

The U.S. has long been in need of infrastructure repair. Starting in 2007, the Great Recession knocked the country back and was followed by a long recovery. In response, the Obama administration passed the American Recovery and Reinvestment Act to provide stimulus ($831 billion) in tax cuts/credits and unemployment benefits for families. Given the dire situation, only

$120 billion was allocated for spending on infrastructure projects – primarily "shovel-ready" projects to help provide immediate jobs.[7]

With the economy fully rebounded, the Trump administration attempted to launch several infrastructure bills, culminating in an election year plan that called for at least $1 trillion in total infrastructure spending over 10 years. However, while Congress passed stimulus relief for households and businesses, it was reluctant to pass excess spending bills during the 2020 pandemic.

Now, after 12 years of little movement on the infrastructure front and at the precipice of a booming, post-COVID economy, there may be some light at the end of this tunnel. Legislators on both sides of the aisle recognize that investment is sorely needed. After all, a modern infrastructure environment is essential to support national commerce, especially the drive to move more manufacturing capability back into the U.S.

Efficient infrastructure provides the pipeline between businesses and workers to suppliers, wholesalers and consumers. It is the foundation on which America is able to build on its capitalist roots and sustain economic leadership. Unfortunately, we currently lag many other developed nations in infrastructure quality.[8] The impact could hit home as soon as this year as the rest of the globe begins to recover from the coronavirus.

Over many years, China's investment in infrastructure has outperformed that of the U.S., particularly in support of the digital economy. For example, without our own supply chain, U.S. customers may one day find it difficult to find USB cables with the correct metal bit configuration to fit their laptops, as design standards may be dictated by China's economic market instead of the U.S.[9]

Furthermore, time is money – and the longer we wait to upgrade our transportation, the more money we waste. In 2018, the average American worker spent 225 hours commuting to and from work – in many cases due to increasing traffic congestion. Research has found that urban traffic leads to increased travel time and extra fuel, costing an additional $166 billion a year. Lost time due to traffic congestion has increased by more than 40% in just the past 20 years, as patch attempts at capacity and alternative transportation options have not kept pace with the growing number of commuters in population centers.[10]

Increased airport congestion poses a potential economic loss of up to $36 billion. Faulty water main breaks are estimated to cost $2.6 billion per year. Broadband infrastructure has become more important than ever as many companies decide to switch to a remote work model, and schools build on remote-learning capabilities established during the pandemic. However, people living in remote communities with unreliable or limited access to high-performance broadband have fewer opportunities for education, skill building and employment that could increase their job prospects and earning potential. According to the Federal Communications Commission, more than 20 million Americans still lack access to adequate broadband connection; approximately one-third of them live in rural areas.[11]

Economic Growth

Jobs – As infrastructure spending ramps up, so do new jobs. The Business Roundtable projects that a large investment in U.S. infrastructure would create 1.1 million additional jobs over the next 10 years. While some projects may employ large numbers of unskilled workers, new innovations and digital broadband infrastructure will require more capital- and skill-intensive roles. Research has shown that most infrastructure jobs are stable, available to workers who do not have a college degree and pay above the national median.

If there are not enough skilled workers to match job openings, employers can hire workers from "adjacent" occupations and invest funding in reskilling training programs. Reskilling and training opportunities also offer new opportunities for community colleges and other local training providers.[12] One study found that each additional dollar invested in public infrastructure generates an average of 10 cents or more in output per year over the long term.[13]

Households – The Business Roundtable also found that a significant reinvestment in public infrastructure systems could yield an additional $1,400 in annual income for the average American household over the next 20 years.[14] Increases in disposable income generally lead to higher levels of consumerism, which also contribute to higher productivity and more jobs.

Final Thoughts

Improvements in infrastructure can have an enormous impact on America's future economic and fiscal health. Why does America need to invest in its infrastructure? Because "you have to spend money to make money" – a reference to the old business adage that businesses must invest in people, products, research and development, and delivery channels in order to increase profits. What holds for American capitalism also works in our own households.

Investing is a way to get your money working as hard as you do. Investing in sectors positioned to benefit from new infrastructure funding can offer long-term potential for your personal portfolio. Speak with your financial professional to discern whether an allocation to infrastructure investments may offer growth potential appropriate for your risk/reward profile.

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[1] Knowledge@Wharton. April 12, 2021. "Biden's Infrastructure Plan: Who Are the Winners and Losers?" https://knowledge.wharton.upenn.edu/article/bidens-infrastructure-plan-who-are-the-

winners-and-losers/. Accessed May 10, 2021.
[2] Ellen Knickmeyer and Lisa Mascaro. Associated Press. April 5, 2021. "Eating our lunch: Biden points to China in development push." https://apnews.com/article/joe-biden-politics-xi-jinping-china-united-states-4a76b0f360906ab21020a0e308943ade. Accessed May 10, 2021.
[3] Reuters. March 31, 2021. "Factbox-What's in Biden's $2.3 trillion infrastructure plan?" https://www.reuters.com/article/us-usa-biden-infrastructure-factbox/factbox-whats-in-bidens-2-3-trillion-infrastructure-plan-idUSKBN2BN13T. Accessed May 10, 2021.
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[6] Ibid.
[7] Adam Hayes. Investopedia. March 28, 2021. "American Recovery and Reinvestment Act (ARRA)." https://www.investopedia.com/terms/a/american-recovery-and-reinvestment-act.asp. Accessed May 10, 2021.
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