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A Low Budget 'Infrastructure' Deal for the Bottom 50%

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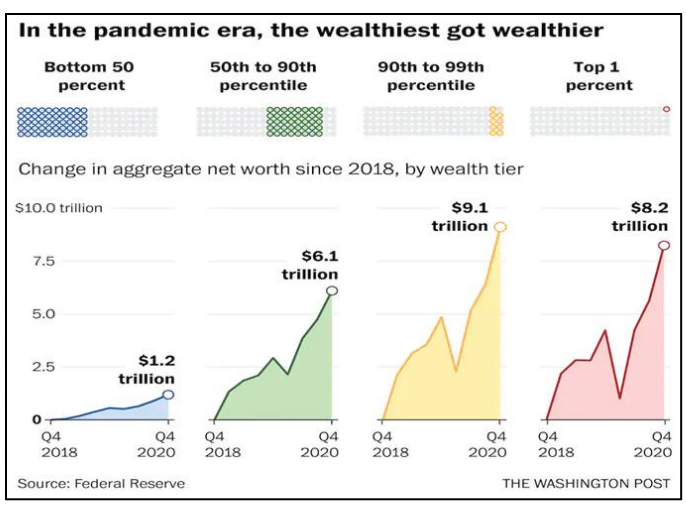
The Biden Administration and Congress continue bobbing and jabbing over the cost and content of legislation to boost spending on national "infrastructure." The political parties and their factions have moved closer to agreement on the physical infrastructure part (bridges, roads, technology). They remain far apart on the "social" or "human" spending part (new programs, subsidies, tax credits).[1]

The total cost – the last I read – could be somewhere between $2 trillion and $6 trillion over up to 10 years.[2] That's a lot of money to load on top a $21-trillion economy with national debt rising above GDP. The size of the deal poses many political and economic risks. Too much spending could trigger inflation.[3] Too much debt could tie legislators' hands far into the future. Mistargeted spending could just be a waste -- a lost chance to help millions of people wondering how they will pay their bills.

With so much on the table, those running the country should carefully consider the financial risks. For many reasons, they also should direct resources to people most in need. Covid-19 has widened the wealth gap. Most people in the top half of the economic pecking order kept their jobs and accumulated capital during the pandemic.[4] A large portion of the half of the workforce receiving low-wages or looking for a job is in worse shape than before.



Congress could do many relatively inexpensive things to improve working people's lives. At spending levels near the bottom of what's being now debated, all workers – including the lowest-paid -- could have additional funds to raise their kids, paid sick days, more job training, and some savings for retirement and emergencies. Millions more could have higher wages and health care coverage. And millions more disabled and elderly people could move above the poverty line. Much of this could be done by modifying existing programs and policies.

Social 'infrastructure' improvements for the working class

- **Target subsidies for families (child tax credits, daycare, college) to people most in need.**
- **Raise the minimum wage and index it for inflation. Give states reasonable flexibility to adjust the minimum. All workers get paid sick days.**
- **Repair and improve SSI.**
- **Establish a universal retirement savings system.**
- **Incentivize states to expand Medicaid. Hold Medicare spending increases to general inflation or less.**
- **Improve Social Security benefits for the bottom 50%. Achieve long-term solvency through higher taxes mostly on the top 20%.**
- **Improve the unemployment insurance system and job training.**

Progressively target family subsidies

Directing social spending to people most in need saves taxpayers money. It also reduces the likelihood of inflation. If Congress made college or daycare free for everybody, for example, providers facing a surge in demand would probably increase prices. In the long run the resulting inflation might make services harder to afford for all but the wealthiest and most subsidized. Middle-income families could end up worse off.

A scholar from the conservative American Enterprise Institute recently called for greater progressivity in childcare subsidies along with increased funding.[5] "Childcare assistance should target low- and middle-income families and maximize choice," she suggests. Support for progressive spending policies now can be found along most segments of the political spectrum.

At the top of the social spending list is extending the temporary expansion of the child tax credit, which Congress enacted as part of the American Rescue Plan in March.[6] Previously, federal child tax credits were highly regressive – targeted to higher-income families.[7] Congress might do well to make the tax credits even more progressive in future years. The one-year expansion now pays families earning $150,000 a year the same amount per child as those making $30,000 a year. It will be hard for lawmakers to eliminate these allowances once people get used to them.

Higher wages and paid sick days

Given the will, Congress could improve life at the bottom of the economy by requiring employers to provide workers with a few paid sick days[8] and by carefully raising the federal minimum wage.[9] These changes would cost taxpayers virtually nothing. Compromise could be reached on issues of increased labor costs and related job loss. One solution would be establishing a minimum-wage corridor (say, from $12 to $16 dollars per hour) allowing states some flexibility to adjust the national standard up or down to account for regional labor market differences.

As for paid sick days, most higher income workers take them for granted, but millions of low-wage workers don't get them. Many employers of low-wage workers already offer paid sick leave earned through time on the job. Businesses that don't are arguably free riding. A few mandatory paid sick days would level the playing field and help employers do the right thing. As the pandemic has shown, paid sick days also can provide a community-wide benefit by slowing the spread of disease.[10]

Fix SSI – Social Security's backstop

About eight million disabled and elderly Americans receive Supplemental Security Income (SSI) under a program designed to plug gaps in Social Security. Over the years, SSI benefits have deteriorated. About two fifths of recipients now live below the poverty line.[11] Access to SSI will continue to narrow because Congress has not updated income and asset limits for decades. Congress could take significant steps to improve SSI at a cost of $20 billion to $30 billion a year. This could provide critical help to many of the least fortunate members of our society.

Expand inclusive capitalism through universal retirement savings

For about the same amount of money, Congress could make sure that every worker has prudently invested retirement savings and a bit of money for emergencies. This would involve setting up a universal system similar to those in England and Australia and making sure at least a few hundred dollars each year are put into an account for each worker without the means to save.[12] New retirement savings accounts for low-wage workers would supplement Social Security and the current 401(k) system, not displace them. All workers would have the opportunity to own working assets.

Inclusion of low-wage workers could be financed by expanding the current financial transaction tax on stock sales to levels set less than industry service charges. Another source of financing could involve redistribution of the current highly regressive tax break for employment-based retirement savings from the wealthiest to lower-income workers through refundable tax credits and direct deposits.

More health care coverage at less cost

Now we're moving into more expensive territory. The President and Congress are far from ready to establish universal health coverage, such as Medicare-for-all, which would re-channel a significant amount of private-sector spending through the federal government.

Policymakers could help cover several million more low-income people by getting the 13 states that have not expanded Medicaid to do so.[13] In this spirit, the Biden Administration already has withdrawn the Medicaid waiver Texas has used to gather federal dollars for uncompensated care in lieu of expanding Medicaid coverage under the ACA.[14] Health insurance gives workers more leverage to get needed services than dependance on the charity of medical providers. Administrative and legislative nudging could include adjusting Medicare rates as carrots and sticks to encourage states to meet coverage targets or expand Medicaid to cover low-income people now left out.

Congress could take a lot of pressure off the federal budget if it could keep the growth of Medicare costs at or below the general rate of inflation through either tighter price controls or by allowing government agencies more negotiating leverage. The impact would be systemwide. Many private plans peg payment rates to Medicare. Money saved could reduce the need to raise taxes or issue debt to cover the cost of many of the budget items discussed above.

Fixing Social Security

Bringing Social Security into financial solvency will cost something on the order of $250 billion a year for 75 years.[15] In the long run, fixing Social Security is not really a political option, but policymakers are likely to delay the pain it entails as long as possible. Along with Medicare, Social Security lies at the heart of the country's social infrastructure. Social Security has broad public support and may well be our most important anti-poverty program.

Fixing Social Security is not on the Congressional radar now, but it must be done some time during the next decade. Social Security could be brought into financial balance with no cuts in benefits[16] by eliminating its current cap on taxing wages and by raising capital gains taxes.[17] Raising wages for the lowest-paid workers, suggested above, would give them higher retirement and disability benefits while bringing in more tax revenue.

Social Security cannot be brought into balance without moving trillions of dollars around. If nothing else, Congress should keep this in mind when considering large-scale spending increases including those that would lower the cost of college and childcare for upper-middle-income families.

Well, that's my list of asks for working class infrastructure so far. Other than fixing Social Security, Congress could probably get most of this done for less than $200 billion a year and add less to the national debt. It would be especially possible if low-income people were in the majority. Given the political reality of who votes and who is able to lobby Congress, much of the spending resulting from current negotiations may go to people who don't need the money.

Too much untargeted spending may spur inflation in the cost of needed services making it harder for people at the edges of the subsidized population to afford them. Of course, asking for too much for too many may result in no agreement at all.

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