Planning for the Public Good: How to Structure More Equitable and Sustainable Investments

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Over the last four months, as we at the Roosevelt Institute have watched the debate over major infrastructure investments unfold in Washington, DC, we have consistently pointed to two core principles: First, spending must be at the scale needed to solve our most pressing problems and set us up for long-term economic prosperity and stability. Second, new infrastructure investments must be structured to promote equity and democracy throughout our economy and political system.

In three new issue briefs, Roosevelt Institute experts explore this second principle across a wide range of topics—retirement investments, industrial policy, and childcare. In each, they show how affirmative public policy decisions to cede planning to the market have undermined equity and democracy and made our economy less resilient. Though they examine very different pieces of our economy, each brief arrives at a similar conclusion: To address our nation's most urgent problems, we must deepen the public's role in planning and oversight.

- "Industrial Policy and Planning: A New (Old) Approach to Policymaking for a New Era" by Todd N. Tucker and Steph Sterling argues that despite the myth that "the US does not practice industrial policy and instead operates on purely free-market principles, our country has long had ad hoc measures that amount to an inadvertent neoliberal industrial policy favoring the wealthy and connected." Building on Tucker's earlier work, the authors suggest that the US's ad hoc approach to industrial policy prevents adequate solutions to crises like climate change. To move forward effectively, we must deliberately plan for the growth of certain industries, as many of our competitors and allies already do. But, unlike other nations, we must craft an approach to planning that centers democratic governance.
- "The Potential Benefits of a Public Asset Manager" by Lenore Palladino and Chirag Lala explores the power that asset managers—the private companies that act as fiduciaries for household investors—have in the economy. Palladino and Lala argue that these powerful actors currently understand their responsibility purely as maximizing financial gain for the households whose investments they hold; they do not consider households' broader interests. A public asset manager would reshape the market, by creating a democratically controlled alternative to these market-based fiduciaries that could take a more holistic view of household interests and spur broad change among private asset managers.
- "Supply-Side Childcare Investments: Policies to Develop an Equitable and Stable Childcare Industry" by Suzanne Kahn and Steph Sterling shows that leaving the provision of childcare up to the market has left American families with limited and unaffordable options. As the country contemplates a significant new federal investment in the childcare system, Kahn and Sterling argue that the investment should include guardrails to counter the corporate extraction we have seen in many other industries. New federal investments should proactively promote democratic control of the childcare industry by empowering parents and providers.

Notably, in each of these cases, the decision to cede management and planning to market-driven entities has not meant a lack of government investment. Over the last half-century, while allowing an ad hoc industrial policy to flourish, the federal government has put billions into industries ranging from pharmaceuticals to weapons development, enriching private companies along the way. Without a public asset manager to turn to, the Federal Reserve hired private asset managers to advise and help manage its purchases of corporate bonds and debt funds in response to the COVID-19 recession. Even in childcare—where the federal government has radically underinvested for decades—Congress approved over $5.8 billion in discretionary funding in the 2020 fiscal year.

In each case, the federal government has recognized enough of a public need to warrant some investment but not enough to warrant either proactive planning or public provisioning. Leaving decision-making about critical infrastructure to market actors has led to perverse results that work against the public's long-term interests. For example, BlackRock and Vanguard, which manage billions of dollars of US households' retirement income—including major holdings in the fossil fuel industry—have "voted against nearly all shareholder resolutions calling on fossil fuel and other companies to take aggressive action on climate," as Palladino and Lala write. Yet the households whose savings BlackRock and Vanguard manage have a long-term interest in addressing and stopping climate change. For another example, federal investments in childcare have been so low that half of childcare workers rely on other forms of government subsidies—e.g., food stamps and Medicaid—to make ends meet.

It doesn't need to be this way. As these three issue briefs suggest, we can strengthen federal investments in important industries by creating mechanisms of public, democratic control.

In "Industrial Policy and Planning," Tucker and Sterling offer five criteria for evaluating proactive industrial policies—those policies that encourage "resources to shift from one industry or sector into another, by changing input costs, output prices, or other regulatory treatment." Of every policy, they ask:

- Does it improve the country's productive capacity in the industries we need most?
- Does it promote environmental sustainability?
- Does it foster equity?
- Does it enhance economic democracy?
- Does the government have capacity to sustain the policy?

We can start putting these questions to work by applying these criteria to the policy proposals in the following two briefs.

Palladino and Lala's proposal for a public asset manager would reshape a critical component of the financial industry to give the public a stronger voice in issues of corporate governance. Today, three private companies hold 20.5 percent of all corporate equity. As voting shareholders, these private asset managers exert an enormous amount of control over corporate policies that will shape all our lives for years to come. A public asset manager would serve as a form of industrial policy that would shift power in the industry to be more democratic, and therefore, ideally, reflect long-term public interests like environmental sustainability.

This is especially important in terms of equity. Asset management that prioritizes returns to shareholders benefits a particularly small and white segment of the US population. While half of US households have some savings in corporate stocks, the wealthiest 10 percent hold 85 percent of corporate stock in terms of dollar value. Furthermore, only 35 percent of Black households and 25 percent of Latinx households have retirement savings in the stock market, while 57 percent of white households do. Only direct shareholders benefit from asset managers who focus exclusively on maximizing profit, but many people beyond those holders are affected by the corporate decisions in which asset managers have say.

Unlike the flush-with-cash asset management industry—which manages more than $100 trillion—the childcare industry has been chronically underfunded for decades. Kahn and Sterling's "Supply-Side Childcare Investments" asks what it will mean for such an industry to suddenly receive an enormous federal investment such as the $225 billion contemplated in President Biden's American Families Plan. Based on the experience of other industries, the brief suggests that protections be built into federal investments from the start to prevent corporate extraction and encourage democratic control. In particular, the brief focuses on how a fund designed to support the construction of new childcare programs can encourage democratic governance of the industry by empowering communities to help site the new programs and parents and teachers to sit on the programs' boards.

While industrial policy has often been thought of as the domain of manufacturing and other industries that are coded as white and male, building a more equitable economy requires that we take an industrial approach to service sectors disproportionately comprised of Black and brown women. Kahn and Sterling's proposals provide one example of how an industrial approach to a service sector industry can direct investments in important new directions. While federal investments in childcare have long focused on consumer-side subsidies, taking an industrial approach counsels for investments that directly build out the supply of childcare as well.

As leading industrial policy scholars Mariana Mazzucato and Rainer Kattel argue, "The public sector bears responsibility for the long-term resilience and stability of societies, and for shaping public outcomes through policymaking and public institutions." Across sectors and industries, when we leave decision-making to market actors, long-term economic resilience and equity suffer.

The infrastructure investments currently being debated in Congress are essential to addressing the long-brewing and daunting crises our nation faces. These crises demand investments at a very large scale, but they also demand careful attention to structure. In the coming months, as Congress fleshes out the details of these proposals, we must ensure these investments do not go to private and unregulated actors who are not meant to serve the public's long-term interest. These three issue briefs offer examples of how to do this. Together, they offer a range of policy tools that would empower the public to build a more equitable and sustainable economy.