The Daily Dish

Implications of Alternative Futures for the Build Back Better Act

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Friday the Congressional Budget Office (CBO) released a letter to the ranking members of the House and Senate Budget Committees (Jason Smith and Lindsey Graham, respectively) that shows the budgetary implications of making the many programs in the Build Back Better Act (BBBA) permanent (or at least lasting for the entire 10-year budget window). With these estimates, there are three different scenarios that are being bandied about in the public debate:

- Scenario A: Take the House-passed bill at face value, with the spending front-loaded, taxes concentrated in the final 5 years, and a deficit overall of $367 billion.
- Scenario B: Assume that the spending programs in the BBBA are made permanent and taxes are as specified in the House-passed bill. This would make the deficit an additional $3.0 trillion higher according to CBO.
- Scenario C: Assume, as the administration insists, that future extensions of the programs in the BBBA will be fully paid for. This implies no more deficits – it is still $367 billion over 10 years – but a whopping additional $3.0 trillion in new taxes (compared to $1.3 trillion in the BBBA itself).

How should one think about these three options?

Scenario A means that all the spending programs sunset. That means all the spending is front-loaded and the final 5 years are just a tax increase. The former is stimulus – not nearly as dramatic as the $1.9 trillion American Rescue Plan (ARP), but the last thing an inflation-plagued economy needs in the near-term. The latter has been judged to be highly detrimental to the long-term growth of the economy by the independent Penn Wharton Budget Model and Tax Foundation. If Congress wanted a formal, non-partisan judgment that would find the same thing, it could ask the Joint Committee on Taxation to evaluate the BBBA with its macroeconomic models at any time. Notice, also, that all those programs that are supposed raise labor force participation and deliver a supply-side spending miracle are gone, so there are no offsetting economic benefits. The bottom line is inflation up front, bad growth thereafter, and additional deficits.

Scenario B means that the spending programs last for 10 years, thereby raising the possibility of beneficial economic impacts. Unfortunately, this seems unlikely, and it is budgetarily very pricey. The child credit costs an additional $1.6 trillion, the child care and preschool subsidies $752 billion, the state-local tax giveaway $245 billion, health insurance subsidies $209 billion, and the list goes on. (See the letter for a complete listing.) In its analysis of the economics of “hard” infrastructure, CBO concluded that real benefits are rapidly dissipated when the spending is deficit-financed. With another $3.0 trillion in deficits, Scenario B is just Scenario A on steroids.

Scenario C replaces the massive deficits of Scenario B with a huge tax increase – three times as large as the tax increase in the BBBA itself. Deficits are the promise of future higher taxes; higher taxes are, by definition, front-loaded and more damaging. Scenario C is Scenario B having a bad day.

In the end, the analyses available add up to more inflation pressure in the near term and worse, much worse, or dreadful growth in the longer term. What a terrible menu to have to choose from.

Speaking of inflation, Friday also saw the Bureau of Labor Statistics (BLS) release the November report on consumer prices. As has been widely reported, the year-over-year rise in the Consumer Price Index (CPI) was 6.8 percent – the highest since 1982. Even more striking, the year-to-date rise in food, energy, and shelter (which make up over one-half of the typical household budget) is at an annual rate of 8.5 percent. Houston, we have an inflation problem.

And it will take time to fix. The Fed is still in the process of reducing monetary stimulus, but not eliminating or reversing it. Given the lags in policy, the Fed's next moves won't show any impact soon. Similarly, there is still over $2 trillion of saved "stimulus" from 2020 and 2021 that will keep pressure on demand and inflation; whatever the BBBA turns out to be will simply be icing on the inflation cake.

Inflation and bad growth are the experience of my youth. The problems were ultimately solved by a focus on incentives to save and invest, fiscal sobriety, and a Fed focused on disinflation. We are a long way from that.