The Daily Dish

Not Ever, but Especially Not Now

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Eakinomics has spilled a lot of electro-ink on the various incarnations of the Build Back Better Act (BBBA, currently going by That Which Shall Not Be Named but Must Be Passed). BBBA was never a good policy idea. It did not add up fiscally. It would be a drag on economic growth. The design of individual programs left enormous amounts to be desired. And on many issues, e.g., climate change, it over-promised and under-delivered.

But BBBA is an especially bad idea right now. The Biden Administration already has a black eye from its handling of the macroeconomy. The American Rescue Plan generated inflation not seen in 40 years, forced the Fed's hand to tighten, and has raised fears of recession in the foreseeable future. Based on new research, enacting the House-passed version of the BBBA would cost about 650,000 jobs and reduce wages by about $350 per worker. That's not what the economy needs. And it is a perverse strategy as an electoral Hail Mary.

To assess the current implications of the BBBA, AAF commissioned Professor John Diamond of Rice University to do a formal macroeconomic analysis of two versions of BBBA: (1) the House-passed version, and (2) a variation of the House-passed version that cut back spending to produce $500 billion in deficit reduction. Diamond was given carte blanche to do the modeling as he felt it should best be done, and he tried two variations in the productivity effects of the BBBA spending. His study is here, while a summary memo by Gordon Gray and me is here.

The bottom line is that in all of the scenarios, the effects of the BBBA's tax increases would depress investment and result in a net negative impact on the size of the economy (GDP), employment, and standards of living (private consumption). The United States needs sound fiscal policies focused on supply-side growth and fiscal sobriety. There should never be a time for BBBA, but especially not now.