Press Release

Macroeconomic Effects of H.R. 5376: the Build Back Better Act

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As the debate around the House-passed Build Back Better Act (BBBA) continues, it is useful to determine whether the bill's spending provisions would reasonably result in positive macroeconomic effects that offset the drawbacks of its tax increases. To get a better sense of the potential economic impacts of the legislation under three different scenarios, the American Action Forum commissioned John Diamond of Rice University to assess the macroeconomic implications of the bill's tax and social spending proposals.

Key points:

- For this study, Diamond used techniques similar to those employed by the Joint Committee on Taxation and Congressional Budget Office and had autonomy on the data and necessary assumptions in the analysis. The congressional budget agencies estimated that the House-passed BBBA would raise a net $946 billion in new taxes (over 10 years) and spend, on net, $1.3 trillion, for a net deficit effect of $365 billion.
- In Scenario 1, Diamond estimated the effects of the BBBA as passed by the House. He found that the bill's negative impact on growth from higher taxes would outweigh its positive impact on growth from social spending. Specifically, he found the net impact of the legislation over 10 years would be to lower gross domestic product (GDP) by 0.5 percent, household spending by 0.3 percent, employment by 0.3 percent, and worker compensation by 0.8 percent.
- In Scenario 2, Diamond estimated the effects of the BBBA with the assumption that its $130 billion in outlays would be devoted to infrastructure investment, which would have higher associated productivity effects. Under this scenario, the economic effects would be substantially similar to those achieved under Scenario 1, although under this assumption the long-run effects on private consumption and labor compensation would be incrementally smaller.
- In Scenario 3, Diamond estimated the effects of the BBBA with the assumption that its $500 billion in tax increases is devoted to deficit reduction, with a proportional reduction (relative to the BBBA) in spending of $865 billion. Compared to Scenarios 1 and 2, Scenario 3 would be less harmful to long-run economic growth and would result in a slightly smaller reduction in GDP of 0.4 percent, but nevertheless in similarly reduced consumption, employment, and compensation.

Read the summary

Read the study