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Title: Macroeconomic Effects of the White House Build Back Better Budget Reconciliation Framework

Key Points:

- PWBM estimates that, as written, the White House's Build Back Better reconciliation framework would increase spending by $1.87 trillion over the 10-year budget window while increasing revenues by $1.56 trillion over the same period.
- We project that the reconciliation package will increase federal debt by 2.0 percent and decrease GDP by 0.1 percent in 2050, relative to the current law baseline.
- Under an alternative, illustrative scenario in which all spending provisions in the White House framework are permanent except the clean energy tax credits, new spending would instead increase by $3.98 trillion and new revenue would still increase by $1.56 trillion over the 10-year budget window. The federal debt would be 25.2 percent higher and GDP 2.8 percent lower in 2050, relative to current law.

Introduction

On October 28th, 2021, the White House released a framework for an agreement of legislative priorities to be taken up by the Senate in the budget reconciliation process. In this analysis, PWBM analyzes the budgetary and macroeconomic effects of a policy package consistent with the White House's proposed framework. We also analyze an illustrative scenario in which the new spending programs in the White House's framework are made permanent, as previously shown here.

The Build Back Better reconciliation framework provides for $1.85 trillion in new outlays over a decade. Spending provisions are concentrated in investments in clean energy, childcare and preschool, health, housing, and more. Tax increases in this framework are directed toward large and multinational corporations, high-income households, increased enforcement efforts for the existing tax code, and more. PWBM estimates that, on a conventional scoring basis, the proposed revenue-raising provisions will increase federal revenues by about $1.56 trillion over the next decade.

PWBM projects that the new spending and tax provisions will lead to a 2.0 percent increase in government debt by 2050, and a 0.1 percent decline in GDP in the same year.

Under the alternative permanent spending scenario, new spending totals $3.98 trillion over the budget window and new revenues total $1.55 trillion over the same time period. Under this illustrative scenario, government debt is 25.2 percent higher in 2050 and GDP 2.8 percent lower.

Spending Provisions

To evaluate the economic effects of the different spending programs, we break up the spending proposal into transfers and tax expenditures, labor productivity boosting spending, productivity increasing public infrastructure investments, and other federal spending. PWBM has previously estimated the effects of a number of these types of policies including preschool and childcare programs, Child Tax Credit expansion, and public infrastructure investments. Many spending provisions are stated in dollars, and so we take the spending amount from the White House proposal as written. For the Premium Tax Credit (PTC), the Child Tax Credit (CTC), and the Earned Income Tax Credit (EITC), we provide our own estimate of the budget impact.

While most of the provisions in the Build Back Better framework are proposed as permanent policies, some policies are designed to end at or before the end of the budget window. Relative to current law, the PTC would be expanded for fewer than five years and the framework proposes a one-year extension of the 2021 parameters of the EITC and the CTC (expanded under the American Rescue Plan Act). The proposal would also permanently remove restrictions on CTC refundability. Childcare and preschool spending are scheduled to expire after six years with only nominal spending for preschool in the first three years ($4 billion, $6 billion, and $8 billion respectively). Clean energy tax credits are set to end after 10 years.

Under the illustrative permanent spending scenario we consider, all of the spending provisions listed above are made permanent with the exception of the clean energy tax credits, which still expire after 10 years.

Table 1 shows the distribution of spending by model input over the 10-year budget window for the White House framework as written (column 2) and the illustrative permanent spending scenario (column 3).

<Table 1. Build Back Better Framework Spending by Model Input Classification>

Transfers and tax expenditures make up the largest proportion (about 44 percent) of new spending in the White House's proposed $1.87 trillion spending framework. These policies include the EITC, CTC, and PTC expansions, as well as public housing investments and clean energy subsidies. Other federal spending, made up of energy and climate investments, immigration reform, and workforce development, receives the next largest share of new spending at 27 percent. Labor productivity boosting spending on preschool and childcare programs makes up 21 percent of new spending. Public infrastructure investment receives the smallest share of new spending (8 percent).

In the illustrative permanent spending scenario, the total cost over 10 years is instead $4.26 trillion. Transfers and tax expenditures make up 66 percent of new spending under the permanent spending scenario. The largest proportion of this spending is on the CTC extension, which totals $1.8 trillion in new spending over the budget window. The Premium Tax Credit expansion is the next largest expenditure in Transfers and Tax Expenditures, requiring $385 billion of new spending over the budget window. Extending the EITC results in $125 billion of new spending. Labor Productivity boosting spending is the second largest new spending category in the permanent spending scenario, receiving 19 percent of new spending over 10 years. The dollar amount of the spending is twice the cost under the White House's proposed framework because the White House proposed three small spending years, followed by three years of preschool and then an end to preschool and childcare programs; in this scenario, we extend preschool and childcare programs. Other federal spending and public infrastructure investment remain unchanged in dollar terms and now make up 12 and 3 percent of new spending, respectively.

Revenue Provisions

The Build Back Better framework proposes offsetting new outlays with a combination of new tax revenues and the repeal of a scheduled spending increase.

- **Minimum tax on corporations' book income.** Creates a new 15 percent corporate alternative minimum tax based on the financial statement income of corporations with at least $1 billion in such income.
- **Tax on share repurchases.** Imposes a 1 percent excise tax on share repurchases.
- **Modifications to international taxes.** Increases the minimum tax rate on certain foreign income to 15 percent and determines the tax on a country-by-country basis; increases taxes on base erosion payments; reduces the tax benefit for foreign income from domestic intangibles; and makes changes to foreign tax credits.
- **AGI surcharge on high-income households.** Assesses a 5 percent surcharge on AGI above $10 million and an additional 3 percent on AGI above $25 million.
- **NIIT tax base harmonization.** Subjects all income above $400,000 to the Net Investment Income Tax (NIIT), which, together with Medicare taxes under current law, generally applies to income above $250,000 with the exception of certain pass-through income.
- **Extension of excess noncorporate losses limitation.** Extends the maximum allowable deduction for most pass-through losses ($524,000 for joint returns in 2021), which is scheduled to expire in 2026 under current law.
- **IRS funding.** Appropriates an additional $80 billion over the next decade for IRS enforcement activities, including the hiring and training of new auditors and IT systems modernization.
- **Rebate rule repeal.** Repeals the implementation of a "rebate rule" scheduled to increase prescription drug-related Medicare outlays beginning in 2023.

Table 2 shows PWBM's conventional revenue estimates for the tax provisions in the framework. These estimates are the same for both the White House proposal and the illustrative permanent spending framework.

<Table 2. Estimated Budgetary Effects of Selected Revenue Provisions >

Economic Effects

Each of the components of the budget reconciliation proposal contributes differently to the proposal's overall effect on the U.S. economy.

PWBM described all the macroeconomic effects of the same categories of spending provisions in its previous analysis of the August Senate Reconciliation Framework. In summary, programs such as new investments in public housing are transfers, or payments to households, which crowd out productive private capital and reduce households' incentives to work. Programs such as universal preschool programs and childcare lead to a small increase in labor productivity when affected children eventually enter the workforce and as caregivers gain flexibility to work more hours in a greater variety of jobs. Public infrastructure investment increases productivity of both workers and private capital, although the spending crowds out productive private capital. The remaining spending proposals, which also includes the Medicare hearing benefit, lead to higher government spending and higher government debt. Since many of the plan's provisions expire earlier than in our previous analysis, some of the resulting productivity improvements are therefore also limited.

The reconciliation proposal also contains provisions to raise revenue through changes to business and personal taxes. The additional revenues decrease future deficits, which in turn reduces the negative impact of federal borrowing on private capital formation. At the same time, the provisions increase the tax burden on investment and labor income, which has the opposite impact on long-run economic growth.

Table 3 shows the combined effects from these different components in the White House's proposal as written.

<Table 3. Economic Effects of the 2021 White House Build Back Better Framework>

Under the White House proposal, government debt increases by 2.3 and 2.0 percent in 2040 and 2050, respectively. Private capital declines by 0.4 percent in both of those years. Although lower private capital makes workers less productive—which results in lower wages—some of the provisions in the reconciliation proposal decrease labor hours worked (by 0.3 percent in both 2040 and 2050), which makes labor more valuable. More scarce labor leads to slightly higher wages, which offsets the effects on wages of lower private capital. Wages increase by 0.1 percent in 2040 and 0.2 percent in 2050. Nonetheless, the drop in the labor supply and private capital leads to a fall in GDP of 0.2 and 0.1 percent in 2040 and 2050, respectively.

Table 4 shows the economic effects of the illustrative permanent spending scenario, where all new Build Back Better spending programs are permanent except the clean energy tax credits.

<Table 4. Economic Effects of the Illustrative Permanent Spending Scenario>

In the illustrative scenario, government debt increases by 19.9 percent and 25.2 percent in 2040 and 2050, respectively. This new debt crowds out private investment, decreasing the capital stock by 7.6 percent in 2050. More scarce capital decreases the productivity of workers, lowering wages by 1.5 percent in 2050. In turn, lower wages and the transfer provisions in the proposal decrease hours worked by 1.3 percent in 2050. Overall, the fall in both labor and capital decreases GDP by 2.8 percent in 2050.

This analysis was produced by PWBM staff. Report was written by Jon Huntley, Maddison Erbabian, and John Ricco. Mari Paulson prepared the brief for the website.

Table 1. Build Back Better Framework Spending by Model Input Classification

Billions of dollars

	Total 10-Year Spending	
Spending Category	White House Proposal	Illustrative Permanent Spending Scenario
Public Infrastructure Investment	$145	$145
Labor Productivity Boosting	$400	$794
Transfers & Tax Expenditures	$820	$2,818
Other Spending	$505	$505
Total	**$1,870**	**$4,262**

Table 2. Estimated Budgetary Effects of Selected Revenue Provisions

Billions of dollars

Provision	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget window
Minimum tax on corporations' book income	7	11	13	16	19	21	23	26	28	30	195
Tax on share repurchases	4	5	5	5	5	5	5	6	6	6	51
Modifications to international taxes	-2	36	39	43	31	27	27	26	26	26	278
AGI surcharge on high-income households	18	25	26	28	27	26	26	28	30	32	267
NIIT tax base harmonization	16	22	24	26	21	21	23	23	24	26	226
Extension of excess noncorporate losses limitation	0	0	0	0	0	27	35	36	38	40	175
IRS funding	-1	-1	3	10	17	26	32	34	35	35	190
Rebate rule repeal	0	12	16	18	19	20	21	22	23	24	174
Total	**42**	**110**	**126**	**146**	**139**	**173**	**192**	**201**	**210**	**219**	**1556**

Table 3. Economic Effects of the 2021 White House Build Back Better Framework

Percent Change from Baseline

Year	GDP	Capital Stock	Hourly Wage	Hours Worked	Government Debt
2031	-0.1	0.0	0.3	-0.4	2.6
2040	-0.2	-0.4	0.1	-0.3	2.3
2050	-0.1	-0.4	0.2	-0.3	2.0

Table 4. Economic Effects of the Illustrative Permanent Spending Scenario

Percent Change from Baseline

Year	GDP	Capital Stock	Hourly Wage	Hours Worked	Government Debt
2031	-0.9	-1.9	0.8	-1.8	11.3
2040	-1.7	-4.4	-0.3	-1.4	19.9
2050	-2.8	-7.6	-1.5	-1.3	25.2