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Build Back Better Investments Are Fiscally Sustainable

By Joel Friedman and Sharon Parrott

The Build Back Better legislation makes a series of investments to improve the lives of families across the country by reducing poverty, expanding health coverage, and addressing climate change. Policymakers have committed to offsetting the costs of the bill's new investments and have proposed a series of sound measures to do so, including revenue increases and savings from lowering the costs of prescription drugs.

While some have argued that the bill is not fiscally sustainable, their criticisms miss four basic points.

First, the legislation is on track to be fully offset, unlike some other recent pieces of major legislation. The Build Back Better legislation contains revenue increases and spending reductions that fully offset its costs over ten years, according to recent White House estimates.¹ Notably, the commitment to fully offset the cost of the Build Back Better legislation has strengthened over time. The budget resolution would have allowed for a reconciliation bill with significant un-offset costs, but policymakers have chosen a higher fiscal standard for the current Build Back Better bill than the resolution required.

In contrast, both the 2001 and 2017 tax-cut packages significantly increased deficits. The budget resolutions guiding these measures allowed them to increase the deficit, and there was no subsequent effort to pay for these tax-cut packages. More recently, the bipartisan infrastructure package was not fully offset, though it did include some savings.

Some argue that the bill the House is scheduled to consider the week of November 15 is not fully offset. A key issue is the increased revenues that will result from stepped-up enforcement by the IRS. While both Treasury and the Congressional Budget Office (CBO) find that more funding for IRS enforcement will generate significant new revenue, Treasury's revenue estimates from higher

¹ White House, "Preliminary Budgetary Estimate of the Build Back Better Act, H.R. 5373," November 3, 2021, https://www.speaker.gov/sites/speaker.house.gov/files/WhiteHouse_BBB_PreliminaryBudget.pdf.

audit collections and improved voluntary taxpayer compliance are higher than CBO's. But even these higher Treasury estimates are viewed as conservative by some former Treasury secretaries.²

Ultimately, the expectation is that policymakers will settle on a reasonable estimate for increased revenues that result from more IRS enforcement, and with that estimate, the bill will be fully offset. Moreover, policymakers could address any concerns about enforcement revenues by restoring the IRS information reporting requirements for financial institutions that were dropped from the package.³

Second, the legislation improves the long-term fiscal picture because the revenue increases and drug savings are permanent policies. Even though many of Build Back Better's new spending programs are temporary, the revenue increases and prescription drug provisions that generate savings are permanent. This means the legislation will reduce deficits over the long term — in excess of \$2 trillion in the second decade after enactment, according to the White House. The improvement in the fiscal picture after 2031 will put the nation in a stronger position to sustain important policy advances and address policy challenges.

Third, it is misleading to claim that all expiring provisions will be extended without any offsets. When expiring Build Back Better provisions near their expiration date, policymakers will have to evaluate the benefits and costs of the policies and take affirmative action if they want to extend them. Policymakers crafting the current package committed to financing the investments with sound offsets now, and policymakers considering extensions of policies in the future likely would similarly choose to offset their costs.

Analysts with the Penn-Wharton Budget Model and the Committee for a Responsible Federal Budget have estimated the ten-year costs of various Build Back Better provisions as if they were in place over the full decade.⁴ This exercise can yield helpful information, but it is not a prediction of the future because it excludes any analysis of the many plausible offsets that could be used to finance program extensions and the pressures policymakers will face to offset the cost of these extensions.

To address the cost of extending expiring provisions, policymakers could use measures that have been proposed but not included in the Build Back Better legislation that would raise revenues from wealthy households and profitable corporations — and are broadly popular with the public. The revenue measures were scaled back in part because the overall level of investments was scaled back, but proposals put forward by the Biden Administration and many members of Congress are meritorious and could raise substantial revenues to support future investments, including extensions of Build Back Better policies.

² Lawrence H. Summers, November 4, 2021, <https://twitter.com/LHSummers/status/1456447740561481733>; Jacob Lew at Center for American Progress, "Toward Stronger and Fairer Tax Enforcement," November 3, 2021, <https://www.americanprogress.org/events/toward-stronger-fairer-tax-enforcement/>.

³ Chuck Marr and Samantha Jacoby, "Reducing the Tax Gap: 5 Key Points on Information Reporting," CBPP, September 14, 2021, <https://www.cbpp.org/research/federal-tax/reducing-the-tax-gap-5-key-points-on-information-reporting>.

⁴ Penn Wharton Budget Model, "White House Build Back Better Framework, Illustrative Permanent Scenario," November 1, 2021, <https://budgetmodel.wharton.upenn.edu/estimates/2021/11/1/reconciliation-framework>; Committee for a Responsible Federal Budget, "BBB Expirations Could Hide \$1 to \$2 Trillion of True Costs," October 21, 2021, <https://www.crfb.org/blogs/bbb-expirations-could-hide-1-2-trillion-true-costs>.

For example, proposals that would have reduced the extremely large and permanent cut in the corporate tax rate enacted in 2017, ensured that very wealthy people pay taxes on unrealized gains in their stock portfolios and other wealth, provided for a more robust surtax on wealthy households, or narrowed or closed various loopholes would all generate substantial revenues and push back against the nation's very large income and wealth gaps.

In addition to revenue measures, there are further ways to reduce the cost of prescription drugs that the House proposed but have been scaled back substantially in the current legislation.

Recent history suggests that Congress is likely to face significant pressure to pay for extending Build Back Better provisions. Over the past two decades, far more effort has gone into offsetting the cost of investments designed to reduce poverty, expand health care, and buttress human capital than the cost of tax cuts. Both the 2001 and 2017 tax cuts increased the deficit over the first decade. And when most of the 2001 tax cuts were extended, their cost was not offset. In contrast, the Affordable Care Act made major investments in health coverage but revenue increases and spending reductions more than fully offset its costs in the first decade and over time.

While none of this guarantees that all potential Build Back Better extensions would be fully offset, it surely calls into question the assertion that none of their cost would be offset. And, of course, there is no guarantee that policymakers will extend these policies, even though they have a strong base of evidence behind them and would advance health and economic security (as discussed more below). But if the policies were extended, it is certainly reasonable to assume that the extensions would be coupled with substantial offsets.

Fourth, the investments in this package will meet critical needs and have important long-term benefits for individuals and the nation as a whole. The fiscal impact of the Build Back Better legislation is only one metric by which the bill should be judged — and not the most significant. Crucially important is whether the investments will meet important national needs and benefit the nation in ways that outweigh the cost of any increase in debt service. Major investments in this package — such as investments in children, early education, college access and completion, and health coverage — have a strong base of evidence.⁵ Investments that reduce poverty and hardship among children, for example, improve children's long-term education and health outcomes, helping them meet their full potential and benefiting the nation as a whole. Investments in health coverage improve access to health care and health outcomes and reduce financial hardship. Investments in quality child care and preschool and efforts to improve college access and completion help children and students succeed later in life and strengthen our future workforce, while helping parents get or keep jobs and make ends meet. These investments also make us a fairer, more equitable nation.

The question of how investments will benefit the country — and what costs will be imposed by failing to make these investments — is too often ignored in discussions about whether the nation

⁵ Arloc Sherman *et al.*, "Recovery Proposals Adopt Proven Approaches to Reducing Poverty, Increasing Social Mobility," CBPP, August 5, 2021, <https://www.cbpp.org/research/poverty-and-inequality/recovery-proposals-adopt-proven-approaches-to-reducing-poverty>.

can afford to make them.⁶ Indeed, the returns on many of these investments are so substantial that increasing deficits to finance them would be better than forgoing the investments. Even so, policymakers have committed to offsetting the costs of these critical investments with sound revenue measures and savings from prescription drugs.

⁶ Sharon Parrott, “Commentary: Evaluating BBB Requires Considering Sound Fiscal Metrics and Merits of Investments,” CBPP, August 31, 2021, <https://www.cbpp.org/research/federal-budget/evaluating-bbb-requires-considering-sound-fiscal-metrics-and-merits-of>.