JEC JOINT ECONOMIC COMMITTEE DEMOCRATS

CHAIRMAN DON BEYER @JECDEMS

How the Build Back Better Act Would Reduce Inflationary Pressure and Cut Costs for Families

Underinvestment in America's public infrastructure helped create the conditions for the inflation—or higher prices for the same goods, economywide—that the U.S. is currently experiencing. The economic recovery, fading emergency pandemic relief and the Federal Reserve's actions will reduce inflation in 2022, but the Build Back Better Act presents the best opportunity for Congress to reduce inflationary pressure long term, cut costs for families and boost economic resilience. Key to understanding these effects is distinguishing between the kinds of short-term, deficit-financed stimulus that deliberately generate inflation to blunt a recession—like those passed under the last four presidents—and longer-term investments—like the Build Back Better Act or the Deficit Reduction Act of 1993—that invest in growing the economy over the long term and target lower inflation.

Bringing down inflation and costs for families is crucial to sustained economic growth that is broadly shared. After decades of rising inequality and tax cuts for the wealthy and corporations, the House-passed Build Back Better Act would make crucial investments to bring down long-term inflationary pressure through investments to grow the American workforce, increase the supply of affordable housing and train generations of workers. By addressing the threat of climate change, the bill would reduce the role of fossil fuel price spikes and extreme weather in driving future inflation, insulating the economy from key sources of price spikes that can lead to inflation—just as occurred in 2021.

The Build Back Better Act would directly reduce healthcare and prescription drug costs—with Medicare negotiating lower drug prices for seniors—while cutting taxes for families with children. The bill would also cut driving costs for millions of Americans, make commuting costs more predictable and dramatically lower child care costs, especially for the newest parents.

The Build Back Better Act is fully paid for, which actively reduces risks of overheating the economy

The Build Back Better Act is fully paid for by asking the wealthy and big corporations to pay their fair share and by enabling the federal government to negotiate for lower prescription drug prices, which would drastically lower Medicare expenditures for the government and seniors. Investments in the bill are spread over a 10-year period, unlike stimulus measures of the last two years, which were front loaded to jump start the economy and prevent a severe recession. Thus, while the *total spending* in Build Back Better represents historic investments on important programs, the *net change in spending* overall is minimal. This mitigates the risk of short-term inflation from excessive government stimulus—that is, tax cuts or spending that is not paid for—especially when the economy is growing at potential, which can boost spending without a commensurate increase in productivity, cause demand to outstrip supply and push up prices.

Furthermore, as the economic recovery continues and emergency pandemic relief is phased out, the collective impact of these programs' expiration is forecast to lower GDP by about 2% over the next two years. This fiscal contraction—the opposite of the stimulus used to fight the recession—builds in further momentum that will push down inflation.

The Build Back Better Act would increase labor force participation, make the economy more productive and reduce inflationary pressure

Growing the workforce helps expand the economy without spurring inflation by boosting economic capacity. When conditions enable experienced workers with more advanced career skills to stay in the labor force, these experienced workers increase overall productivity. Helping workers stay in the labor market and equipping them with the skills and training needed to fill jobs and become more productive over time reduces long-term inflation. The Build Back Better Act would increase participation in the workforce by helping families to navigate care responsibilities and stay employed.

After decades of stagnant wage growth, current wage gains are a result of a strengthening labor market that has increased bargaining power for workers. Overwhelmingly, it is supply chain disruptions—not higher wages—that have driven recent inflation over the past year, especially in hard hit categories like used cars. Serious concerns about worker shortages call for more urgency to train and expand the workforce, which is exactly what the Build Back Better Act does through investments in care infrastructure and workforce training.

By investing in the U.S. workforce, infrastructure, research and innovation, the Build Back Better Act would advance sustained economic growth and lower inflationary pressures in the long term

The Build Back Better Act makes evidence-based investments that grow the workforce and increase productivity to bring down long-term inflationary pressure, while also investing in technologies that will make the economy less vulnerable to the kinds of shocks that can trigger inflation.

The Build Back Better Act would invest in every traditional channel of modern public policy proven to boost productivity. These include investments in infrastructure, research, innovation, and education and training for the U.S workforce. Better transportation, technological advancements and more rapid deployment of cutting-edge technology complement a more skilled workforce to lower inflationary pressures. These are key drivers of productivity growth that enable American workers and businesses to produce more with less, thereby reducing long-term inflation.

The Build Back Better Act would also facilitate the next generation of productivity-enhancing investments, which current economic research finds are a key untapped source of future productivity growth. Investing in American people makes the U.S. economy stronger and reduces inflationary pressure. Investments in child care, universal pre-k, workforce development and higher education will create a more productive workforce for decades to come, advancing faster sustained economic and productivity growth—both of which ultimately suppress inflation.

Paid leave and care infrastructure also raise productivity by helping more experienced, more productive workers stay in the labor force. This boosts overall performance with less turnover and training costs. With improved skills, workers are able to produce more while doing the same amount of work, lowering overall costs. For example, improved efficiency enabled the average American to produce and earn nearly four times as much in 2019 as in 1950.

The Build Back Better Act invests in energy independence, shielding families from energy price volatility and mitigating energy-induced inflation

Even in normal economic times, energy prices are volatile, which contributes to higher economywide costs, strains household budgets and can trigger wider inflation—and even recessions. The Build Back Better Act makes large investments in renewable energy and measures to address climate change that would bolster U.S. economic resilience and buffer against energy price inflation.

The world's energy production system, which has existed for decades, has created an environment in which energy prices are determined by the global market forces. That makes them subject to global economic and geopolitical events over which the United States has no control, but which contribute to consistent price and market volatility that expose American consumers to higher prices. To help provide greater economic stability and blunt the impact of global energy price shocks, the Build Back Better Act invests in renewable and electric energy sources.

The public health and environmental benefits of these investments are substantial, but just as important, these investments would substantially reduce American reliance on fossil fuels and shield U.S. consumers from global energy price spikes. Because families need to heat their homes and workers need to commute, even short-term energy price spikes hit family budgets hard. When families cut back on spending to compensate for higher energy costs, the whole economy suffers.

Even with recent drops in gasoline prices, U.S. households remain tethered to the whims of oil and gas markets, presenting avenues for future inflation. The Build Back Better Act would put the U.S. on a path to eliminating fossil fuel dependence, thereby insulating families and the economy against energy price spikes for the future.

The Build Back Better Act's investments to address climate change will help make our infrastructure more resilient, while also helping homes and businesses adapt to increasingly extreme weather. Extreme weather is not simply an effect of climate change, but has been a major driver of food and energy price inflation this year. The economic and social costs of unchecked climate change will continue to compound, harming working families through reduced wages, higher costs, increased property loss and worse health outcomes.

Taken together, investments to address dependence on fossil fuels and address climate change will both raise U.S productivity and cut the risks of future inflation by insulating the U.S. economy against extreme weather and global price shocks for the long term.

The Build Back Better Act directly cuts taxes and lowers costs for seniors and families

Inflation is an economy-wide problem that raises costs for Americans, but lowering inflation is not the only way to lower costs: The Build Back Better Act would lessen the impact of inflation by cutting costs directly for essential items, especially for seniors and families with children.

Rising health care costs have been one of the most significant drivers of long-term inflation for a generation, particularly for seniors. Build Back Better takes a number of steps to directly lower healthcare costs that eat away at fixed incomes. By allowing Medicare to negotiate drug prices directly and capping monthly insulin costs at just $35, the bill would make lifesaving medicines more affordable for Americans whose disposable income is too often at the mercy of drug company profits.

The Build Back Better Act would also reduce the cost of health insurance for millions of people, counteracting a persistent drain on incomes. Since 1980, the cost of health insurance has grown twice as fast as inflation, rendering healthcare unaffordable for many and taking an ever-increasing chunk out of paychecks for others. Reducing health care costs would lower inflation overall and would dramatically lower the cost of living for workers and families for years to come.

The Build Back Better Act cuts taxes and creates savings of $7,400 for an average couple with two kids and lowers housing costs

The high—and growing—cost of raising children is a financial strain on household budgets. The Build Back Better Act would create savings and cut taxes for families, saving an estimated $7,400 for an average couple with two children. Not only would this reduction in household costs more than make up for pandemic supply-chain-generated cost increases, which are expected to fade over 2022, but lowering families' taxes would also support greater private sector investment that reduces costs for all Americans in the long term.

Lower out-of-pocket costs for families helps create long-term, predictable consumer demand that drives investment booms to boost employment, innovation and productivity. These private sector investments increase productivity and further reduce households' long-term costs. In addition to tax cuts, pre-K funding and child care investments would provide stability to the youngest children and the newest parents at a crucial period of financial fragility. These investments would pay off for decades in the form of higher productivity for parents and children alike, lowering inflationary pressures while the economy grows faster over the long term.

The bill would make a historic investment in housing, by both creating new affordable housing and lowering housing costs directly through down payment assistance, infrastructure investments and incentives to eliminate zoning barriers that restrict housing supply. Crucially, giving Americans more choices about where to live lets workers seek out jobs that better fit their skills and needs, raising productivity and lowering costs across the economy—not just in a booming housing sector.

Passing the Build Back Better Act would lower inflation for the long term, cut household costs directly and materially improve the lives of millions

While demand continues to recover and jobs are returning from pandemic-induced shocks, extreme weather and the global health crisis have laid bare the fragilities in global supply chains. This has triggered inflation across industries in economies worldwide and exposed the precarity of household economic security in the United States.

Passing the Build Back Better Act would cut costs and reduce inflationary pressures over the next decade, improving the financial security of millions of U.S. workers and families and promoting long-term economic resilience. And because it is fully paid for, the bill does not present the risk of economic overheating—a concern that was waved aside as previous administrations passed trillions of dollars in tax cuts that were never paid for. Instead, it is a 10-year, long-term investment that is paid for with tax increases on the wealthy and corporations to grow the economy sustainably and more equitably. Moreover, the Build Back Better Act makes historic investments to raise productivity, reduce inflationary risks, insulate the U.S. economy from future inflation shocks and cuts costs directly for millions of workers and families, particularly seniors.