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# Commentary: Evaluating BBB Requires Considering Sound Fiscal Metrics and Merits of Investments

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The House, Senate, and White House are now working to turn the budget blueprint into "Build Back Better" legislation that makes a series of investments in children and families, workers, health care, education, and the environment and pays for the bulk of these investments by raising taxes on high-income and high-wealth households and profitable corporations, taking concrete steps to improve tax compliance, and reducing the cost of prescription drugs.

The debate so far has been overly focused on a single number: the $3.5 trillion in gross new investments over the next ten years — including both spending increases and tax cuts — that may be included in the package. This figure ignores the revenue increases and the spending reductions that will be included to help finance the new investments and which help fill out the picture of the package's fiscal impact.

A singular focus on the gross investment figure, rather than a balanced evaluation of both the investments and the offsets, leads to the incorrect view that the way to be "fiscally responsible" is to reduce the investments, rather than raising revenues or securing savings. True fiscal stewardship requires a focus on the net cost of the package and, even more fundamentally, a focus on the merits of the investment and offset proposals themselves.

***The fiscal impacts of the package are best evaluated by considering its net cost.*** The overall legislation's net cost — spending increases and tax cuts less spending reductions and tax increases — will be far less than the gross cost of $3.5 trillion because the package will include revenue increases and spending reductions. For example, if the package includes $2 trillion in spending reductions and revenue increases, the net cost of the package would be $1.5 trillion, less than half the $3.5 trillion figure.

The focus on the gross cost is a break from how the costs of the Trump tax cuts were evaluated. The Trump tax cuts enacted in 2017 were widely reported as costing $1.5 trillion[1] (later revised by

[1] Joint Committee on Taxation, "Estimated Budget Effects Of The Conference Agreement For H.R.1, The Tax Cuts And Jobs Act," JCX-67-17, December 18, 2017, https://www.jct.gov/publications/2017/jcx-67-17/.

the Congressional Budget Office to $1.9 trillion[2]). This was a *net* figure, representing the net cost of the tax cuts and spending increases after the significant tax increases and spending cuts the package included were taken into account. If the Trump tax bill were evaluated only on the basis of the tax cuts and spending increases alone, without consideration of the tax increases and spending cuts the package included, it would have been characterized as a $5.5 trillion package. No one suggested that the Trump tax bill cost more than $5 trillion. (The Trump tax cut legislation included both revenue decreases and increases as well as spending changes that resulted from its expansion of the Child Tax Credit and provisions related to the Affordable Care Act. Generally, the press, policymakers, and the public focused on the net cost — including both the revenue and outlay impacts together.)

This focus on net cost made sense for the Trump tax cuts and it makes sense for the Build Back Better legislation as well. When considering the cost of legislation, the net effect, not just the investment or tax cut side of the ledger, matters most.

It is also reasonable to look at other fiscal measures, including the net change in spending (increased spending less spending reductions) and the net change in revenues (the increase in revenues net of tax cuts). These metrics provide an overall sense of how the package affects total spending and total revenues.

In evaluating the legislation's overall net cost, it is important to keep in mind two additional key points. First, an economic package with a net cost of $1 trillion to $1.75 trillion[3] over a decade is small relative to the size of the U.S. economy over this period. In 2022, CBO projects that the U.S. economy will be $24 trillion, and over the next decade, the cumulative gross domestic product (GDP) will be $288 trillion.

Second, interest rates today are very low and are projected to remain low by historical standards going forward, which means that the United States can borrow to finance high-value investments with a significant net benefit to the U.S. economy and households over the long run while adding little to interest costs.

Legislation that makes important investments and has a net cost of $1-$1.75 trillion over the next decade would total just 0.3 to 0.6 percent of GDP, which the nation can afford to finance, particularly given current and projected interest rates. (Notably, the 2001 Bush tax cuts totaled 1 percent of GDP over ten years.)

Finally, an over-emphasis on the gross investments in the Build Back Better legislation results in too little attention being paid to the other side of the equation — the ways to raise revenues, reduce the gap between the taxes that are owed and the taxes that are paid, and secure reasonable savings from pharmaceutical companies. Scaling back high-value investments and then doing less to raise revenues and secure drug savings is not responsible and leaves national needs unmet.

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[2] Congressional Budget Office, "The Budget and Economic Outlook: 2018 to 2028," April 2018, https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf.

[3] The budget resolution requires that the net cost of the reconciliation package not exceed $1.75 trillion, and it could be less than this depending on total revenues and spending reductions included in the final package.

***The Build Back Better package should also be evaluated on the merits of its investments.*** While less debt is preferable to more debt absent other differences in policies or outcomes, reasonable additional debt that pays for high-yield investments that improve well-being, bolster the economy, and help more children reach their full potential is well worth taking on.

Thus, it is critical to evaluate how the package will meet important national goals like improving children's health, education, and employment outcomes; improving the human capital of our workforce; supporting workers; improving health; tackling climate change; and promoting equity across lines of race, ethnicity, and gender. Reducing the size of the package doesn't make the package better for the nation if it means that we accomplish less in critical areas.

That means that the conversation about the size of the package not only should be rooted in more comprehensive fiscal metrics, but also needs to take seriously what the package is trying to achieve, the importance of those goals, and whether the polices will achieve them.

In the coming weeks we are likely to hear some policymakers suggest that the package is "too big," that the investments are "too ambitious," or that the revenue increases are "too large." These kinds of amorphous concerns don't contribute to a thoughtful debate about what should and should not be in final legislation. Instead, policymakers and others need to be explicit about the policy tradeoffs inherent in scaling back the investments and the revenue raisers and other offsets. More specifically:

- **If policymakers want less investment, they should make their case with specifics**. Which investments do they think the nation should forgo or scale back — child care for stretched parents, housing supports to reduce evictions and homelessness, health care for those lacking affordable insurance, investments in climate technologies and education and workforce development, paid family leave and preschool, or efforts to improve child nutrition?
- **If policymakers call for raising less in revenues, they should specify which tax breaks for the very wealthy and for profitable corporations should be protected.** President Biden's recovery proposal calls for ensuring that multinational corporations can't escape taxation by offshoring their profits and that very wealthy individuals aren't able to shield the vast majority of their income from taxation. Those who call for scaling back the revenue raisers should be specific about the tax preferences for the well-heeled and corporations that they want maintained.

  Many who call for raising less in revenues will also be concerned if the net cost of the bill increases. In that case, they should be clear about which investments they think are less important than the tax preferences for the wealthy and corporations they want to maintain.
- **If policymakers are reticent to provide the IRS with tools to enforce our tax laws and collect the revenues that are owed, they should be clear about why it's a priority to protect those who cheat on their taxes — and, for those concerned about the cost of the package, which investments should be forgone so that tax cheaters can be protected.** The Biden plan provides new resources to the IRS to increase audits and other enforcement activities. And it would require financial institutions to provide information about the amount of money flowing into and out of bank accounts so that the IRS can better target enforcement on high-income households and large corporations that aren't

reporting their income accurately. Both provisions are designed to ensure that high-income households and large corporations pay the taxes they owe to close the tax gap, now estimated to be up to $1 trillion *per year*.[4] If policymakers don't want to give the IRS the tools it needs to close the tax gap, they should be clear about why — and those concerned about the net cost of the package should explain which investments are less important than shielding those who cheat on their taxes.

The United States is a wealthy country that has gaping racial disparities in education, housing and job opportunities, health care, income, and wealth; child poverty rates that are high compared to other wealthy nations[5] because we do less to help families with low incomes; and nearly 30 million people who lacked health insurance prior to the pandemic. We underinvest in education and the environment, as well as children and workers. And we have a tax system that collects too little because it is riddled with special tax rates and preferences for the wealthy and corporations — and lax enforcement that allows the well-heeled to simply not pay what they owe.

Build Back Better legislation represents a historic opportunity to make critical investments that will broaden opportunity and make the nation more productive and more just — and to start to build toward a tax system that is more equitable, sustainable, and adequate. The stakes for the country are high and should be robustly debated, but that debate should be rooted in the things that matter — what investments the nation needs to make and how should they be financed — not amorphous discussions about fiscal measures that overstate the cost of the bill and are divorced from the policy tradeoffs facing the nation.

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[4] Laura Davison, "Tax Cheats Are Costing the U.S. $1 Trillion a Year, IRS Estimates," Bloomberg Wealth, April 13, 2021, https://www.bloomberg.com/news/articles/2021-04-13/tax-cheats-are-costing-u-s-1-trillion-a-year-irs-estimates.

[5] CBPP, "U.S. Child Poverty Rate Exceeds Similarly Wealthy Countries After Taxes and Government Benefits," https://www.cbpp.org/us-child-poverty-rate-exceeds-similarly-wealthy-countries-after-taxes-and-government-benefits.