MEMORANDUM

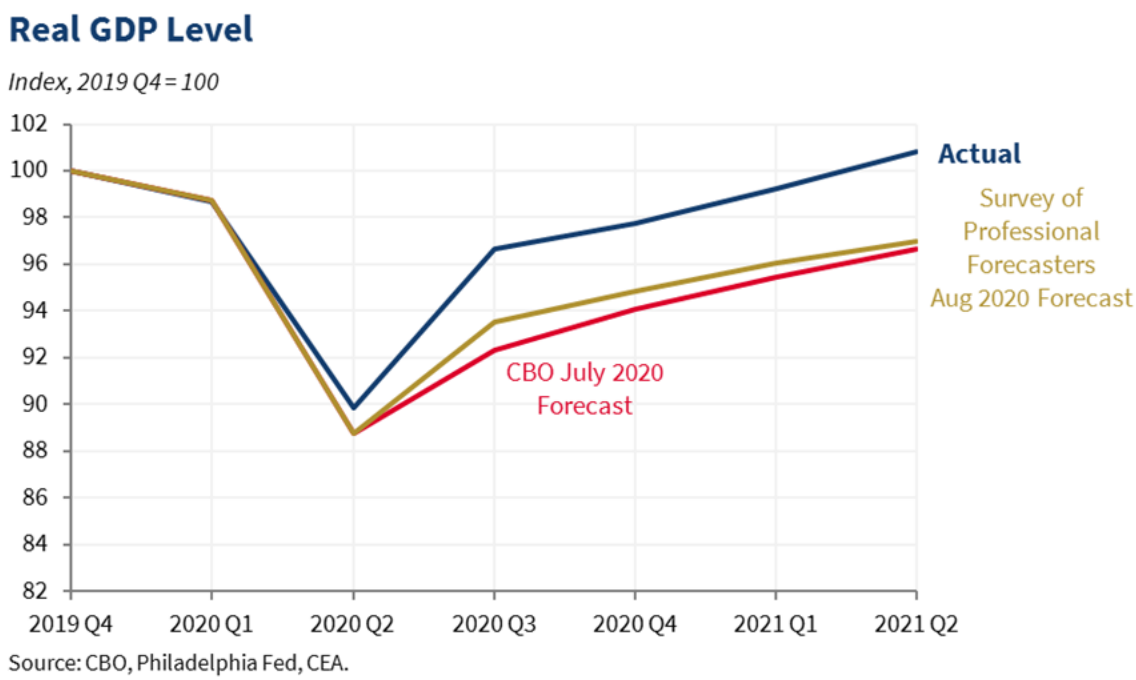
To: Members of Congress
From: Brian Deese
Subject: Economic Benefits of the Build Back Better Agenda

The Bipartisan Infrastructure Investment and Jobs Act and the Build Back Better reconciliation package together represent historic, long-term investments in our nation's economic future—investments that will drive higher growth, a larger labor force, better living standards, and greater equity in the decades to come. By eliminating bottlenecks and increasing the productive capacity of the economy, these investments will lower prices across the economy, and by fully offsetting their costs, these measures will strengthen our long-term fiscal position as well.

This memorandum provides context on recent economic data and then presents the economic evidence on the combined effects of the infrastructure legislation poised for Senate passage and the Build Back Better reconciliation package that the Senate plans to take up this week.

Impacts of the American Rescue Plan on Economic Growth and the Labor Market

Last month, we learned that the U.S. economy grew at the fastest rate in the first half of a year in nearly 40 years. With growth at 6.5 percent in the second quarter, the United States returned to its pre-pandemic GDP peak faster than forecasters projected was possible before the American Rescue Plan passed. This is a result of the President's economic and public health strategy.



In addition, new jobs data last week showed that since January, more than 4 million jobs have been created, with an average of 832 thousand jobs per month created over the last three months.

The unemployment rate has fallen from 6.3 percent to 5.4 percent. The prime-age labor force participation rate has increased from 81.1 percent to 81.8 percent. While the economy still has a way to go to fully recover from the pandemic, the progress to date has been heartening and has made a real difference in the lives of the American people.

Investing for the Future

While the Rescue Plan was designed to defeat the pandemic, get our economy back on track, and give us the tools to deal with potential public health challenges and disruptions in the months ahead, the two pieces of legislation that the Senate is considering this week are about investing in the long-run potential of our economy — and in areas which the economic literature shows pay significant long-term dividends, boost economic growth, produce a larger, more productive, and healthier workforce on a sustained basis, and generate savings to states and the federal government.

When it comes to physical infrastructure investments like those in the bipartisan infrastructure legislation, multiple analyses have described how such investments can generate returns that not only raise future living standards but also generate additional government revenue to partially offset the cost of such investments over time. Earlier this week, 18 Republican senators joined Democrats in voting to end debate on an infrastructure deal that is in part financed by these dynamic growth impacts, in addition to other financing measures.

Research suggests that investments in human infrastructure are among the very highest return activities in which we as a country can invest. Economists including Nathaniel Hendren and Ben Sprung-Keyser have found that direct investments in low-income children's health and education have generally paid for themselves over the long-run, as governments recouped the cost of their initial investment through taxes collected and reduced transfers down the road.

For example, studies of comprehensive high-quality early childhood programs for low-income children by economists Jorge Luis Garcia, James Heckman, Duncan Ermini Leaf, and Maria Jose Prados have found that every dollar invested in high-quality care can result in up to $7.30 in benefits, including increased wages, improved health, and reduced crime. According to a study by economists Raj Chetty, John Friedman, and Jonah Rockoff, sustained tax credits for families with children have been found to yield a lifetime of benefits for children – improving students' probability of attending college, raising lifetime earnings, reducing teenage birth rates, and improving the quality of the neighborhoods in which children live – in addition to generating benefits that are more than eight times higher than the gross fiscal costs, according to another study from Columbia University researchers. Finally, paid leave policies have been found to increase employee retention and morale, boosting productivity and profitability for employers.

Effects on Economic Growth

As we describe above, the Bipartisan Infrastructure Investment and Jobs Act and the Build Back Better agenda are about addressing longstanding challenges in our economy, boosting the productive capacity of our economy, and growing the economy over the long-run. These positive effects can be seen in terms of projected economic growth, as illustrated by recent analyses of the plans themselves.

A July 21 report from Moody's Analytics Chief Economist Mark Zandi estimated that the plans would add $4.6 trillion in 2012 dollars to GDP over the next decade. This is the equivalent of more than adding Germany's annual GDP to U.S. GDP over the next decade. According to Moody's, annualized economic growth is projected to be on average around 0.2 percentage points higher each year over the coming decade than without the plans.

Another report from the International Monetary Fund (IMF) found that as a result of President Biden's proposed American Jobs Plan and American Families Plan – the vast majority of which would be enacted if Congress passes the bipartisan infrastructure deal and the reconciliation package – "potential growth is expected to move up (to around 2 percent) and the level of real GDP would be higher by around 1 percent in 2030."

Labor Market Impacts

Related to the positive effects on growth, the Moody's and IMF analyses also project that the proposed plans will create jobs, reduce the unemployment rate, and boost labor force participation.

If the infrastructure deal and the reconciliation legislation are enacted, Moody's projects that the economy will add 1.9 million jobs to the level of employment on average per year from 2022-2031, add 2.2 million jobs in 2031 alone, and substantially lowers the projected unemployment rate. In addition, labor force participation is projected to increase to 62.9% and hold steady through the decade, while labor force participation without the plans is projected to remain at 62.4% at the end of the decade.

As the IMF notes:

> The proposed fiscal plans, combined with the more accommodative monetary framework, are expected to reduce unemployment to close to 3 percent and bring labor force participation to pre-pandemic levels by end-2022. Supply-side policies—including infrastructure spending, childcare support, paid family leave, expanded healthcare, and a more generous EITC—are expected to help support labor force participation and productivity over the medium-term, helping to offset an expected demographic downtrend in participation.

Lowering Costs and Easing Inflationary Pressures

Finally, recent data suggest that we are living through a period of temporary inflationary pressures, as our economy comes out of a pandemic shutdown and grows rapidly. This interpretation of the data is corroborated by the vast majority of independent forecasters – from the Federal Reserve and the Congressional Budget Office to Goldman Sachs, Morgan Stanley, and UBS – that project that the uptick in inflation is temporary and will return to more normal levels next year. They generally come to this conclusion because the uptick so far this year has largely been associated with pandemic- and supply chain-affected sectors like vehicles, airfares, and hotels.

Crucially, the two pieces of legislation now under consideration in the Senate are *long-term investments that are spread over the course of the decade* and will lead to the kind of durable economic growth over the long-run that eases bottlenecks and inflationary pressures. The Build Back Better investments in supply chains will also further reduce and mitigate the risks of future bottlenecks by building more resilient supply chains in critical sectors like transportation, agriculture, and public health. In addition, both pieces of legislation now under consideration are fully paid for over the long-run – a break from the approach of the prior Administration, including the 2017 tax cut – meaning that they will actually reduce debt in the decades ahead.

As Moody's concluded: "Worries that the plan will ignite undesirably high inflation and an overheating economy are overdone." Late, the report notes:

> much of the additional fiscal support being considered is designed to lift the economy's longer-term growth potential and ease inflation pressures. For example, consider the additional spending on new rental housing supply for lower-income households, which is critical to rein in rent growth and housing costs, or the efforts to reduce prescription drug costs.

In addition, former Treasury Secretary and director of the National Economic Council Larry Summers recently explained that the "bipartisan infrastructure proposal provides an epic opportunity for productivity enhancement." Former Chair of the Council of Economic Advisers Jason Furman said that the plan "would not be inflationary because the investments are spread out over time, mostly paid for and would expand the productive capacity of the economy."