

Research on the Influence and Optimization of the “Build Back Better” Act on the American Economy

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Abstract. The pandemic has become a public health crisis as well as an economic crisis in the United States, actually one of the most substantial national economic crises since The Great Depression. This research analyzes the impacts of the “Build Back Better” Act on the US economy and discusses the optimization strategy of the policy. The research utilizes secondary resources, mainly past research and news articles, to analyze the impacts of the policy and proposes potential strategies that the US government can implement to optimize the “Build Back Better” Act. The analysis discusses inflationary targeting, interest rate control, input subsidy strategy, and the trade-off between the two strategies. This paper aims to provide a solution that can reduce the economic concerns from the establishment of the “Build Back Better” Act and can act as a reference for future adjustments of expansionary policies. This study can be the basis of future studies on whether similar bills by the government during recessions would effectively work as a stimulation to the economy and solve the issues of the current economy.

Keywords: American economy, Build Back Better Act, Optimization strategy.

1. Introduction

1.1 Research background

The COVID-19 pandemic has devastated the US economy, with an estimated job loss of 59 percent from February 2020 to October 2021 [1-2]. The pandemic has become a public health crisis as well as an economic crisis in the United States, actually one of the most substantial national economic crises since The Great Depression. The US government has resolved to implement the “Build Back Better Act” with a total of \$ 1.75 trillion, including “provisions on child care and preschool, eldercare, healthcare, prescription drug pricing, and immigration”. More specifically, the Act would elevate spending in areas including building and retrofitting affordable housing, improving infrastructure at public schools, building high-speed broadband networks, supporting affordable care for the elderly and people with disabilities, increasing investment in manufacturing, and funding climate-related research and development [3]. However, part of the compensation for such progressive spending was generated from extra tax revenues. It was reported that the US government has decided to raise the corporate tax rate to 28 percent from 21 percent and impose a minimum tax rate on global profits. At the same time, the US government imposes a 15 percent tax on profits that corporations report to investors and double the tax on global intangible low-taxed income to 21 percent [3].

As the policy was published and implemented, doubts and controversies over the decision of Biden’s administration arose immediately, with the press stating, “Build Back Better is back to haunt this, this time with Manchin’s support” [4]. And stating that other policies may be far more effective with the potentially high price issues at the pharmacy counter. US President Joe Biden and other democrats support such acts, believing that such acts would be beneficial for society with the current Economic downturn[5]. Hence, the study of the “Build Back Better Act” would be to review the policy’s effectiveness and state the optimization strategy for the Act. This study can be the basis of future studies on whether similar bills by the government during recessions would effectively work as a stimulation to the economy and solve the issues of the current economy.

1.2 Literature review

The paper is being written based on current, and past empirical studies on the “Build Back Better Act” and relevant policies. Most scholars believe in such policy’s effectiveness in promoting economic development and growth. However, doubts also arise about the details of the policy implementation. Yeva and Randall pointed out that rising taxes and setting minimum tax rates to raise revenue for the government was not the only approach to gathering funds [6]. This decision will somewhat discourage private investment, and Randall suggested a more efficient approach by balancing spending and tax revenue. On the other hand, the author argues that the Act will not incur serious inflation issues due to no obvious correlation between growth and inflation. Adam S. Hersh proposed that the “Build Back Better Act” will ensure a strong and stable recovery for the US in the upcoming years [3]. Hersh also used data to support the argument that the infrastructure investment and jobs act would significantly boost the labor market, transforming the US economy to become more efficient, equitable, sustainable, and prosperous in the long run. Mark Zandi from Moody’s Analytics analyzed that greater investment infrastructure will lift productivity and labor force growth [7]. However, concerns about inflation, higher taxes, and execution risk also occur. Most discussions are centered on implementing the policy with the support of Macro-Economic data. Despite concerns about tax collection and inflationary consequences, most scholars believe that the “Build Back Better Act” will present significantly positive economic growth.

There have been limited scholarly studies about the “Build Back Better Act” since the policy is still at its very early stage. Some of the unintended consequences may not yet be thought of and considered. The present study is based on the contradicting policy details discussed mostly by the press, including tax collection and possible inflation. Thus, most studies have been relatively premature and only offered suggestions and discussions based on the apparent features of the Act. While most studies affirmed that the “Build Back Better Act” is significant in promoting internal economic growth, it has rarely been mentioned how the policy can be adjusted to maximize its potential influence. Hence, it would be innovative to investigate the optimization strategy and potential suggestions for the bill that can probably maximize the economic growth of the US economy by implementing the “Build Back Better Act”.

1.3 Research framework

The research will be based on secondary resources, including journal articles, news articles, and reports that have been explicitly published. Primarily, by showing key data of the US economy, the economic situation of the US during the pandemic can be portrayed. On the other hand, other policies that have been implemented simultaneously will be taken into account since side effects sometimes affect the potential effectiveness of a policy. After that, the details of the policy will be reviewed regarding previous studies. Key issues about how the current situation could make the policy ineffective will be addressed. Then, potential solutions will be provided to solve such issues and guarantee the effectiveness of the policy in creating growth and achieving its primary goals.

2. Methods

Since the “Build Back Better” Plan was established in the year 2020 and will implement in 8 years, primary studies may be less conclusive and informative since it is a nationwide policy that affects multiple industries. Hence, most primary data may lack the value for analysis in this research. The primary focus would be to generate secondary data, including journal articles, news reports, and official reports on the economy.

The literature research will be included as the main method in this paper. Currently, most research papers have been analyzing the likely impacts of the policy on different stakeholders, with academic insights on the details of the policy and potential concerns. The most direct information will be obtained from these sources with fully cited reasons and explanations. In order to examine the likely influence of the “Build Back Better” plan, the essay will conclude with findings from these journal

articles. On the other hand, to optimize the effectiveness of the policy, the implementation should require slight changes to avoid potential drawbacks to the general society. Therefore, suggestions will be given for using macro-economic theories concerning these journals. These journal articles include academic articles published by scholars and commercial reports about the policy from agencies like Moody's Analytics. Such secondary sources tend to be relatively reliable and reflective.

On the other hand, news articles will be another useful source. News articles are sometimes less professional in interpreting the policies' effects. However, these articles can report individual stories and reveal the influence of the policy from micro and social perspectives. More specifically, the effects on individuals' well-being. Also, news articles tend to represent the belief of a group of people, and it would be beneficial to take multiple perspectives into account. Many ideas might be helpful to be incorporated into the case intro and analysis. However, news articles tend to be less reliable than other reference types, and limitations might arise due to the inaccuracy of the information.

Lastly, the research will also derive the use of macro-economics data concerning the economic growth of the US and some key data that have key implications for the effectiveness of the policy. Reliable sources like the Bureau of Economic Analysis from the US department of commerce will be used primarily for their reliability as an official report. By interpreting these data, we should clearly understand the current economy from the pandemic. Also, how might the policy affect the current situation and interact with other policies? On the other hand, looking at the data may also help evaluate the suggestions, whether the suggestions fit the current situation and may likely be effective in reducing the negative impacts.

3. Result

The United States was one of the countries most influenced by the COVID-19 pandemic. According to the World Bank Data, the US GDP growth rate was -3.5%, the first negative GDP growth since the 2008-2009 Subprime Mortgage Crisis. Before the pandemic, the US had a steady growth rate of around 3%, a consistent recovery from the 2008 crisis [8]. The unemployment rate in the US in 2019 centered around 3% with little fluctuation, and the inflation rate was 1.81% in 2019 [9]. The US Bureau of Labor Statistics published a report named "Projections Overview and Highlights, 2019-29" by a group of Economists led by Kevin S. Dubina. It was estimated and predicted that from 2019 to 2029, the Economic growth in employment and real output would slow down [10]. That is due to the potential aging issues in the US: "One in four people will be ages 65 and older in 2029", and the aging economy is predicted to encounter a fall in consumption. However, as predicted, the aging problem in 2029 can potentially stimulate the healthcare services industry with additional job demand of around 3.1 million. From the report, the trend is clear that the US is anticipating a potential economic decline in the coming years. Though the economy has been growing, the growth rate was expected to decrease.

The COVID-19 pandemic immediately influenced the US economy as part of the labor force had to be quarantined. The unemployment rate in the US surged to 8.05%, a 4.38% increase since 2019 [11]. According to the World Economic Forum, the pandemic caused severe working hours lost in 2020, equivalent to 255 million full-time jobs, leading to \$3.7 trillion in lost labor income and 114 million jobs in the US nationwide [12]. With the Marginal Propensity of Income estimated at around 0.27 [13], we can estimate that the US economy lost around \$1 trillion in consumption injection from US consumers, not to mention the consumption multiplier.

The Trump administration 2020 reacted to the crisis immediately with the proposal of a "Pandemic Relief Bill" of \$900 billion into the economy [14]. The legislative package was said to provide external funding and support for projects including "the distribution of vaccines, funds for schools, small businesses, hospitals, and American families, and money needed to keep the government open for the remainder of the fiscal year". The Trump administration hoped that by stimulating the economy's demand, the US economy could immediately rebound.

With a monthly payment of 1400\$ per person for the “American Rescue Plan”, the payment was higher than the US minimum wage of \$ 1256.7\$ per month. The first issue arises as some labor workers who were paid between the minimum wage and the monthly payment would quit their job, potentially resulting in higher unemployment statistics in the US. On the other hand, inflation issues may also arise by simply boosting the US economy from the demand side. Many factories were stagnating with no production. The increase in demand by providing more payment to the residents would result in a shortage in key necessities under-produced by the economy. As Christie Smythe reported, the average price of a package of toilet paper surged to 11\$, and the expenditure on daily necessities has generally risen [6]. Generally, before the implementation of the “Build Back Better” plan, the unemployment and inflation rates were the main issues that should be concerned.

The “Build Back Better Act” injected 1.9 trillion \$ into the US economic system, slightly more than the “Pandemic Relief Bill” from the Trump Administration [14]. Scholars have been quite positive about the potential impacts of the Act on the system, stating that there will potentially be significant growth in the economy. However, “Build Back Better” primarily plans to reduce poverty gaps and improve the condition of the natural environment. However, this bill stimulates the demand side in the short run, and the influence of the supply side is likely to be significant in the long run. Hence, the price level issue is the main concern, and the inflation rate has risen to around 6% in 2021, the highest number in years. In June 2022, months after the “Build Back Better Act” passed by congress, the US inflation rate surged to a number that is the highest in decades: 9.1%. Yeva and Randall predicted that there wouldn’t be a serious inflationary issue regarding the “Build Back Better Act” since this bill only occupied a diminutive portion of the nation’s GDP [6]. The “Build Back Better Act” did not incur much inflation. Still, with multiple progressive and expansionary policies acting simultaneously, cash injection into the economy is overwhelming for the current US economy. On the other hand, the two policies mentioned above and Biden’s other expansionary \$1 trillion “Fiscal Infrastructure Bill” simultaneously boosted the economy’s employment and demand side, and the purchasing power augmented dramatically. However, these bills tend to stimulate the supply side in the long run, and the supply recovery could not match demand. With transportation concerns about the pandemic spread, the US could not be self-sufficient in providing some products like toilet paper or milk powder. Hence, the primary concern about the policy rise as the “Build Back Better Act” boosts the economy with a potential trade-off of high inflation in the current US economy.

The US has been known to be a “Small Government”, with the free-market approach, the US government was very cautious in using the government power to interfere with the economy. Even in the 2008 Subprime Mortgage Economic Crisis, the US government was denounced for having a slow response to the crisis, which caused an even greater loss in the housing market. However, with the Trump and Biden administrations, the US government is taking more part in the US economy to boost spending. One of the counterarguments for this Act was from Yeva and Randall [6]. They stated that the government’s investment would likely affect the loanable funds market, with the demand for them increasing, causing higher interest rates for loans. Hence, with a higher interest rate, the expectations of private investments will fall, known as the “Crowding Out” effect of the fiscal policy. On the other hand, part of the “Build Back Better” bill came from a higher interest rate on personal and corporate taxes. This would likely turn to discourage private investment in the US economy. Usually, countries with higher private investments experience higher economic growth. Private investment is key to a country’s short and long-run growth. With the higher taxes and inflation, the actual private investment spending is likely to be less than expected. Therefore, it is argued that the second concern of the “Build Back Better Act” is its discouragement of private investment, which may harm the nation’s growth in the long run.

4. Discussion

The optimization strategy of the policy should be capable of solving two major issues occurring with the expansionary fiscal policy: the inflation concern and the private investment concern. The

recommended options or optimization strategies are proposed below, including inflation targeting, interest rate control, and input subsidy.

4.1 Inflation Targeting and Interest Rate Control

Inflation targeting refers to a strategy usually implemented by central banks to adjust monetary policies to achieve a particular inflation rate. According to the preliminary research on the economy of Mexico, it can be inferred that once an economy establishes its fiscal position, inflationary targeting can be seen as an effective mechanism to impose discipline on the monetary policy and reduce inflation [15]. More specifically, inflationary targeting was effective as Mexico's inflation rate reduced from 52 percent in 1995 to under 4 percent in 2003. The authors believed that inflationary targeting was effective in promoting disinflation.

Another research on inflation targeting and interest rate control in OECD (The Organization for Economic Cooperation and Development) industrial countries by Thomas Y. Wu suggested that the effect of inflation targeting can be persistent in reducing the inflation rate [16]. On the other hand, the research discovers that the short-run nominal interest rate determined by the monetary authority, the FED in the US in this case, affects the inflation rate "by affecting credit, consumption, investment and the usual components of the aggregate demand". Thus, this suggests a major impact of change in nominal interest rate in controlling the inflation rate. Thomas also outlined that there is still a "casual" effect of inflationary targeting in reducing the inflation rate in these OECD countries.

However, the US inflation situation differentiates from that of other OECD countries and Mexico. In order to deal with the surging inflation, the US monetary official may need to implement both inflationary targeting and interest rate control with a greater emphasis on interest rate control.

By implementing inflationary targeting strategies, it can be suggested that the FED in the US would potentially need to adjust its interest rates to achieve the disinflation target. That may suggest an increase in the interest rate to discourage investment and consumption in the US economy.

An emphasis must be placed on the time that such a strategy is implemented. A rapid establishment of such a dis-inflationary strategy may conflict with the US expansionary aims in 2020 due to the recession caused by the pandemic. Therefore, it would be suggested that the US implement such a strategy after the economy gets more sustainable regarding its real output growth and economic activities. The suggestion would be to establish such plans around 2022 when the US economy has recovered to its normal standard.

However, such implementation may also create extra while cooperating with expansionary fiscal policies in the next decade. Therefore, a relatively great increase or subtle change in interest rate can be either too detrimental to growth or barely impact. Raising the interest rate to a particular standard may be harder for the US to make.

According to the Federal Reserve Press Release, the committee seeks to achieve maximum employment and inflation at 2 percent over the long run [16]. The Federal Reserve expects inflation to return to its 2 percent objective and the labor market to remain strong. The 2 percent inflation rate might be moderate for a developing country, but for the US, the number is appropriate for inflation targeting.

4.2 Input Subsidy Programs

Input subsidy Programs refer to grants or loans, if paid below the market price, given to a producer to reduce the market price of a specific input or provide it free of charge. The government usually pays the subsidy to reduce the cost of production for particular producers. Such input subsidies are usually implemented in agricultural-related markets to reduce the price level of the products in the market. Such subsidies would encourage the producers to further invest in the production of particular products and potentially reduce the general price level of a product in the market.

According to TS. Jayne and S Rashid, sub-Saharan countries' input subsidy programs (ISP) can raise food production within one growing season [17]. The program provides a highly visible and demonstrative show of the government's support to the constituents in the society, which gained

support for the government. Therefore, it can be inferred that input subsidy would be vital in promoting private investment by reducing their cost of operation. On the contrary, the input subsidy also reduces the dependence of the domestic economy on the global market, creating stronger domestic production.

In theory, if the US government can appropriately implement the input subsidy program, reducing costs can stimulate private investment in the US economy and stabilize the price level of particular products in the markets. It seems that input subsidy may be able to solve both issues simultaneously.

However, controversial opinions were raised by Nusrat Akber in the study of input subsidies in Indian agriculture, and the findings showed that input subsidies significantly and negatively affect public investment in both the short and long run and at both national and sub-national levels [18]. Therefore, the detrimental effect of input subsidy is its feature of crowding out other public investments. With the current expansionary fiscal policies in the US, establishing an input subsidy would create a greater financial burden for the US government.

With input subsidy being established, other problems might be created as well. Input subsidies are usually implemented in agricultural products, particularly in developing or undeveloped countries. There is no evidence of whether such subsidies would work effectively in the US economy. Also, the input subsidies are usually implemented in several years, and the producers may become dependent and rely on the subsidies to gain profit. The market can become more fragile with the help of the officials and more vulnerable in dealing with future economic downturns.

Currently, according to most new sites and official websites, there has been no plan for the US government to implement input subsidies in particular markets. Part of the reason may be that the aim to reduce production costs coincided with some public infrastructure investments. And with the trillion standard spending being implemented by the Biden administration, having the input subsidy would potentially create more deficit for the government.

The primary concerns of establishing input subsidy should be the market, financial input, and budget deficit. The input subsidy can cooperate with the current expansionary policy to boost the supply side production and private investment. However, input subsidy programs usually target one major market, such as agriculture. Therefore, it suggests that the input subsidy can only provide support on a micro scale but cannot directly affect the entire economy compared to adjusting interest rates. Also, the government needs to consider the amount of financial input carefully. If the input is diminutive, the policy may not work. If the input is magnificent, the pressure on the budget balance may increase. In contrast, the official also needs to generate the fee to pay for such input subsidies. As the tax rate has already been increased in the “Build Back Better Act”, further increasing the tax rate may cause negative effects on the economy. Hence, the cash input source also needs to be carefully considered. If the US government can solve the three concerns listed above, implementing the input subsidy may work well to encourage private investment and production.

4.3 Potential Trade-Off

With the two potential strategies managing to solve inflation and private investment issues, it is also suggested that two policies are not recommended to implement simultaneously. The interest rate control and inflation rate targeting as a dis-inflationary and contractionary monetary strategy and the input subsidy as an expansionary strategy for the economy. The two policies conflict with each other in their influences on the economy. Hence, it is suggested that the trade-off relationship between achieving a steady, low inflation rate and a consistent private investment in this scenario. With the current economic situation of the US being analyzed, it seems that the inflation concern is emerging in the short run, and investment concerns haven't yet been a concern to the official. Inflationary targeting and adjusting interest rate may be a more appropriate strategy to solve the current economy's concerns. Therefore, it is reasonable for the US government to implement inflationary targeting, and if the strategy is implemented appropriately, inflation can be effectively reduced.

5. Conclusion

In conclusion, with the analysis and discussion above, it can be reasonably inferred that the potential optimization strategy for the “Build Back Better Act” would be to either have an inflation targeting strategy or implement an input subsidy.

The research in this essay provided potential solutions to the concerns raised by the “Build Back Better Act”. This research aims to provide a solution that brings sustainability and welfare to the economy with the lowest costs to all stakeholders. The solutions provided can avoid potential issues for the general residents, such as high inflation. These analyses and research can also be a reference for future policy acts to solve similar economic concerns under similar economic situations.

Potential limitations in this research are also evident as the research mainly uses secondary data and sources for analysis. The lack of primary data can create reliability issues in the research. On the other hand, the research uses typical neoclassical economic theories with assumptions about the economy. However, the real situation differentiates from the theory that the assumptions are not being satisfied and all economic factors are variable. Therefore, these features may reduce the credibility of the research and cause the research to be less informative.

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