Key Questions

November 15, 2021

# What are the Components and Economic Consequences of the Build Back Better Framework?

Ather Bajwa, CFA®, CPA, Senior Analyst, KeyBank Investment Center

The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

**The Build Back Better framework is the centerpiece of President Joe Biden's domestic agenda. The plan constitutes several pillars, including COVID-19 relief, investment in physical infrastructure, spending on education, tackling climate change, and improving child and elderly care.**

The framework was divided into these three pieces of legislation:

- The American Rescue Plan, the $1.9 trillion COVID-19 relief package enacted in March of 2021.
- The American Jobs Plan, a $1.2 trillion bipartisan infrastructure package that has been passed by Congress and currently awaits President Biden's signature.
- The Build Back Better Act, a 10-year $1.75 trillion social spending program currently being negotiated in Congress.

The final leg of the framework, the Build Back Better Act, set up as a budget reconciliation bill, increases social services spending, extends health care coverage, and addresses climate change.

Combating climate change has been a critical piece of the Democratic Party's legislative agenda for many years. The bill under consideration contains approximately $550 billion for climate initiatives and clean energy, representing one of the largest domestic investments in green technology. The bill includes tax credits to encourage new electric vehicle purchases. In addition, to promote the installation of solar panels for homes, there are incentives available to help cut the cost of solar systems by approximately 30%.

The plan provides $400 billion for child-related care. The program includes comprehensive preschool for all 3- and 4- year-old children and caps child care costs. The proposal also extends the $3,600 enhanced child tax credit through 2022. The expansive provisions related to the framework's healthcare plans are expected to cost approximately $150 billion. The program provides incentives to encourage Affordable Care Act adoption, allows Medicare to negotiate prices for drugs, and strengthens coverage of home care costs for the disabled and the elderly. In addition, the proposal includes $150 billion in housing-related enticements. The program provides incentives for the restoration and construction of affordable housing and increases rental assistance through housing vouchers. It also extends down-payment assistance to help first-time home buyers.

## Paying for the Plan

These higher expenditures are offset largely through raising corporate and individual taxes and bolstering tax enforcement. The legislation will raise $450 billion by imposing a 15% minimum tax on (global) corporate profits of companies with more than $1 billion in profits and a 1% surcharge on corporate stock buybacks. In addition, the program levies a 5% additional tax on taxpayers with income over $10 million and an extra 3% on income over $25 million. The administration estimates the new surtax would raise approximately $230 billion.

The bill also envisions bolstering the Internal Revenue Service. The current bill includes an $80 billion funding boost for the IRS, which should improve its enforcement efforts. The Treasury Department estimates that the IRS will generate approximately $400 billion in additional revenue by pursuing wealthy tax evaders.

### Impact of the Build Back Better Framework

The multitrillion-dollar program attempts to enhance U.S. productivity through investments in physical infrastructure and human capital, hoping that it leads to greater economic growth, increased labor-force participation, and a more equitable economy.

U.S. infrastructure spending as a share of Gross Domestic Product has been falling since the 1960s. The overuse of infrastructure has been a considerable burden on economic growth and productivity. The investment in both traditional infrastructure (roads, bridges, water, etc.) and non-traditional initiatives geared toward climate change (broadband, electric vehicles, solar panels, etc.) should reduce the cost of transportation of goods and services and boost economic activity.

The framework also invests heavily in developing "human infrastructure." Female participation in the U.S. labor force has declined steadily since the 1980s and currently stands at 56%. The Build Back Better framework spends heavily in child care and elder care to make it easier for caregivers (primarily females) to work outside their homes. Similarly, the plan looks to increase economic activity by improving access to health care, reducing the cost of insurance and prescription drugs, and increasing access to affordable housing.

### Conclusion

The final leg of the framework, the Build Back Better Act, is primarily focused on tackling climate change and improving childcare. However, given its scope, the package affects almost every aspect of the U.S. economy. The administration believes that although higher taxation will burden certain businesses and individuals, overall, the three-pronged Build Back Better program will create a framework for enduring investment in physical and human infrastructure to help tackle inequality, subpar growth, and climate change.

Much of the increased spending is covered through tax increases. Over time the effect of significant tax hikes tends to be negative on both economic growth and productivity. Given the short-term nature of the spending plan and permanent tax increases, it is difficult to ascertain how much increased economic activity will be offset by the weight of higher taxes. While the longer-term impact of the Build Back Better framework is difficult to forecast, however, in our opinion, the framework has the potential to have a small, positive effect on the economy over the coming years.

For more information, please contact your advisor.

## About the Author

Ather has more than 15 years of experience working in portfolio analysis roles within fixed income, equities, asset management, funds investing and alternative asset areas.

Ather collaborates with investment professionals across the firm to develop fixed income and real asset models to optimize investor returns. He manages and creates models, identifies new fund opportunities, maintains and develops a strong network of contacts with outside managers, conducts manager meetings, writes due diligence reports, reviews and updates fund reports, and recommends investments funds.

Ather is a Certified Public Accountant (CPA) holds an MBA in Finance from the University of Montana, and is a Certified Financial Advisor charter holder.