



## What Will 'Build Back Better' Buy? Inflation.

*Deficit spending and debt are out of control, and dragging down the purchasing power of the dollar.*

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Plans by congressional Democrats for trillions of dollars in taxes and spending hikes appear to be faltering in the face of opposition by Sen. Joe Manchin (D-W.Va.). Publicly and loudly concerned about the so-called "Build Back Better" bill's near-certain escalation of already worrisome federal debt and inflation, he has remained resolute in his demands for reductions in proposed spending increases as prices have risen across the board for Americans. Economic sense is on his side, since the ambitious bill threatens to further strain Americans' budgets.

"Throughout the last three months, I have been straightforward about my concerns that I will not support a reconciliation package that expands social programs and irresponsibly adds to our nearly \$29 trillion in national debt that no one else seems to care about," Manchin warned in November of the measures dubbed "Build Back Better." "I, for one, also won't support a multitrillion-dollar bill without greater clarity about why Congress chooses to ignore the serious effects inflation and debt have on our economy and existing government programs."

Since then, inflation has hit a year-on-year rate of 6.8 percent, the highest level since 1982, according to the Bureau of Labor Statistics. Also, since then the Congressional Budget Office (CBO) estimated that the Build Back Better bill "would result in a net increase in the deficit totaling \$367 billion over the 2022-2031 period" under unrealistic congressional assurances that its policies would be temporary. In the more likely case that the extra spending becomes permanent, it "would increase the deficit by \$3.0 trillion over the 2022–2031 period," says the CBO.

As a result, "Manchin over the past two weeks has intensified his criticisms about inflation and repeated his desire that Democrats hit pause on the process" of passing the Build Back Better bill, the *Washington Post* reported this week.

Manchin has good company in his fears that trillions of dollars of new federal spending is likely to send inflation rocketing even higher.

"In our assessment, the very front-loaded and relatively progressive nature of Build Back Better means that it is more likely to be inflationary in the short term," the Committee for a Responsible Federal Budget cautioned earlier this month. "This inflationary effect appears likely to be both

small and temporary, but it carries undesirable risks of contributing to a possible inflationary spiral in a time of already high inflation."

Unfortunately, "temporary" sounds an awful lot like "transitory," which has lost credibility as a description of inflation. Even Federal Reserve Chairman Jerome Powell conceded that "it's probably a good time to retire that word" as the purchasing power of the U.S. dollar erodes month after month. Those months just might continue to drag on if the government keeps flooding the world with dollars.

"Widespread inflation always comes from people wanting to buy more of everything than the economy can supply," observed economist John Cochrane, a senior fellow at Stanford's Hoover Institution and an adjunct scholar of the Cato Institute. "Where did all that demand come from? In its response to the pandemic, the U.S. government created about 2.5 trillion new dollars, and sent checks to people and businesses. It borrowed another \$2.5 trillion, and sent more checks to people and businesses. Relative to a \$22 trillion economy, and \$17 trillion of existing (2020) federal debt, that's a lot of money."

Tracy Miller, a senior policy research editor with George Mason University's Mercatus Center, agrees with Cochrane, especially regarding the danger of money created out of thin air.

"Inflation is not directly caused by government deficit spending," notes Miller. "It's the result of the money supply, which is controlled by the Federal Reserve, increasing faster than the output of goods and services."

"We're already experiencing the highest rates of inflation in 30 years, and it can be blamed on the expansion of the money supply since the beginning of the pandemic," Miller adds. He warns that the Build Back Better bill's reliance on debt funded with money created by the Federal Reserve threatens more of the same.

Some defenders of not just the Build Back Better bill, but of expansive government spending in general, argue that deficit spending is perfectly fine and that the government can just keep running up the tab.

"The government, unlike us, doesn't need to pay back its debts before it dies, because it doesn't die ... the government can just roll over its debts in perpetuity," Matthew O'Brien argued with a straight face in *The Atlantic* in 2013.

High-profile investor Warren Buffett argued much the same point last year, though he allowed that, when you keep running the printing presses to pay your bills, you just might erode the value of their output. "What you end up getting in terms of purchasing power can be in doubt," Buffett admitted.

In a video discussion on government debt prepared by Hoover, John Cochrane argues that you can keep running deficits only so long as you keep the red ink within limits as a small share of a growing economy. That's not the case when debt is more than 120 percent of GDP and the federal government proposes to keep spending far more than it takes in.

"Growing out of debt requires that taxes equal spending for a generation or two while growth outpaces interest," Cochrane observes. "The U.S. situation is an intractably exploding debt-to-GDP ratio. Steady large deficits. Not a slowly declining ratio with balanced budgets that we might bump to a higher level with a one-time expansion."

In a situation like ours, he adds, "too much debt results in either sharp inflation, crushing taxes, and sharp and deep benefit cuts, or in a chaotic debt crisis which would be a financial catastrophe."

There are other reasons to oppose massive deficit-spending proposals like the Build Back Better bill, such as their tendency to centralize power in the hands of federal bureaucrats at the expense of individuals. But horror at the impoverishing impact of escalating government debt and the resulting inflation is a good place to start in objecting to these schemes.