

Inflation, the Economy and Health Care: Build Back Better Is Part of the Solution



As Congress moves toward passage of the Build Back Better Act, it is important to address concerns of national inflation. This issue brief focuses primarily on the counter-inflationary impact of Build Back Better’s health care provisions, but we begin with some broader context regarding the legislation and inflation.

What’s Really Going on with Inflation in the United States?

Inflation is a real problem right now in the United States and across the world, but the consensus among economists, including those at the Federal Reserve¹; the finance industry²; analysts of personal finance³; and think tanks⁴ is that current elevated inflation levels are caused by the pandemic. More specifically, Americans’ economic activity, or their “consumption of goods and services,” dropped precipitously in 2020 as the COVID-19 pandemic hit and we began to quarantine.⁵ In reaction, the supply side of our economy contracted, meaning manufacturers and providers of services shut down production and laid off workers.⁶

The good news is that in 2021, as we gained a foothold against the pandemic with vaccines and treatments, coupled with considerable pent-up spending capacity and desire, our economic consumption rapidly increased.⁷ In fact, demand for goods right now is higher than pre-pandemic levels.⁸ Unfortunately, the supply side of our economy needs time to ramp up production again.⁹ Right now, demand far outstrips supply, and the result is predictable: Prices and concerns about inflation are up.

Both economists and debt rating agencies have been clear that the legislation will not add to inflationary pressures in a meaningful way because, from a macroeconomic standpoint, the spending in the legislation is mostly or completely offset by reductions in other federal spending or increases in federal revenue.

So, how does Build Back Better fit into this complex, but temporary, economic dynamic? Importantly, both economists and debt rating agencies have been clear that the legislation will *not* add to inflationary pressures in a meaningful way because, from a macroeconomic standpoint, the spending in the legislation is mostly or completely offset by reductions in other federal spending or increases in federal revenue. In fact, economist Larry Summers, who has been one of the experts warning about inflation over the last year, is on record stating that Build Back Better will not result in increased inflationary pressure in the United States, and he is a strong proponent of the legislation.¹⁰

Moreover, the spending from Build Back Better is relatively modest compared with our massive economy. U.S. gross domestic product is well over \$20 trillion per year and is estimated to be nearly \$288 trillion total for fiscal years 2022-2031.¹¹ Build Back Better's additional spending — \$1.7 trillion to \$1.9 trillion over a 10-year period — represents less than 1% of GDP over the next 10 years and is offset by increased government revenues; it is important to note that the \$1.7 - \$1.9 trillion spending within the legislation is over a 10 year period.

BUILD BACK BETTER WILL:

- » Directly reduce inflation in prescription drugs.
- » Reduce health insurance premium costs in the marketplace.
- » Negotiate lower prices for some drugs.
- » Support families with child care, pre-k and home care to be more active in the economy and relieve workforce shortages.
- » Address supply chain issues, the main cause of today's inflation, head-on.

The Build Back Better legislation also includes funding to address supply chain issues. These investments target the supply chain and labor supply obstructions that, together with increased demand, are the true root cause of today's inflation. For instance, the legislation creates Commerce Department funding to address manufacturing bottlenecks, such as those involving semiconductors.¹²

The Build Back Better Act also includes multiple major provisions to improve labor force participation as part of providing support for working families.¹³ Build Back Better's investment in our nation's working families not only helps to increase production and strengthen the supply chain, but also has the potential to give these families greater economic power and success in our economy. Long-term investments in support for families — like prekindergarten for children, education support for young adults, child tax credits, and support for working families caring for older adults and individuals with disabilities — make it more likely that families across this nation can be fully engaged in their work and experience economic prosperity.

Build Back Better contrasts with the Republican leadership's billionaire tax cut in 2017, which saw almost no increase in economic activity or support for families.¹⁴ Instead, the law included large tax cuts for millionaires and billionaires, minimal tax cuts or even tax increases for middle-income families, and a \$2 trillion increase to the federal deficit.¹⁵ That is a recipe for increasing inflation, but Build Back Better rolls back some of the most egregious elements of this legislation.¹⁶

So What about Build Back Better and Health Care Inflation?

Health care costs are a concern for families across this nation regardless of their political party affiliation, whether they live in New York City or Tupelo, Mississippi.¹⁷ Almost half of adults in the U.S. do not go see a doctor when they need to because of the cost, and almost one-third of adults say that the cost of medical care interferes with their ability to meet their basic needs (food, housing, heat, etc.).¹⁸

When it comes to inflation, health care is a main driver. Over the last 20 years, health care costs have increased more than twice as fast as our paychecks.¹⁹ The health care sector has lost its way, putting revenue ahead of the needs of patients and families, and the American public knows this. About three-quarters of Americans, of every political persuasion, believe that we do not get good value from the U.S. health care system,²⁰ and almost 80 percent think the government should help make sure everyone has access to affordable, quality health care.²¹

Health care costs have increased MORE THAN **2X** as fast as our paychecks.

Build Back Better's most significant provision on prescription drugs is an explicit anti-inflation measure that directly bans drug price increases greater than general inflation across Medicare and private payers.

Build Back Better includes some important policies to make health care affordable and available to our nation's families, and the legislation also includes policies that would slow down health care cost inflation. As described above, health care is a significant component of overall inflation, and much of the growth in health care spending in the United States is the result of the health care sector raising prices (rather than our nation using better technology or more services).²² The Build Back Better legislation specifically targets inflationary trends in prescription drug costs and reduces insurance premiums, as detailed below.


Build Back Better helps get prescription drug prices under control

Among health care pricing abuses, those of drugmakers are some of the worst. Drugmakers leverage their government-granted monopolies, and hire smart lawyers to extend these monopolies and crush competition. As a result, prices for name-brand drugs increased 3.5 times faster than our paychecks over the last 10 years.²³ In fact, drug costs are often the fastest-growing part of the health care premiums Americans pay.²⁴ More than half of Americans say that paying for prescription drugs is a major concern, and almost one-third of Americans cannot take their medications as prescribed because of abusive prices.²⁵ Furthermore, nearly 90 percent of Americans want the government to get involved to get drug prices under control, including about 80 percent of Republican voters.²⁶

Build Back Better's most significant provision on prescription drugs is an explicit anti-inflation measure that directly bans drug price increases greater than general inflation across Medicare and private payers beginning in 2023.²⁷ **This is a direct government action to reduce inflation in an important sector.**

The legislation also introduces Medicare negotiation of prescription drug prices, a major step to stop abusive launch prices by drug companies.²⁸ Beginning in 2025, Medicare will, for the first time, have the power to negotiate the price of prescription drugs. This power will be limited to drugs whose exclusive marketing rights granted by the Food and Drug Administration have expired, but the

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Build Back Better is projected to cut costs by 23% for people who buy their own insurance.

introduction of drug negotiation to at least a subset of drugs in Medicare Part B and Part D provides an important foundation that can be built on over time by Congress and will save tens of billions of dollars.

The legislation redesigns the Medicare drug benefit to reduce out-of-pocket costs for older adults and people with disabilities. It also reduces drug prices in the long term by preventing drug companies “gaming the system” by launching drugs at abusively high prices to enter Medicare catastrophic coverage, meaning the government and plans pay almost all costs.²⁹ This policy has the ability to start to reorient drugmakers’ focus from shortcuts that will increase profits to advancing research to find life-saving drugs.

Build Back Better cuts health care costs for people who buy insurance on their own

Build Back Better would immediately and directly lower families’ health care costs by extending through 2025 the additional financial help for health insurance that began with the American Rescue Plan Act (ARPA). ARPA increased premium tax credits (PTCs) for people buying their own health plans on health insurance marketplaces and made these credits available to people who would otherwise have to pay more than 8.5 percent of their income for standard coverage. Average premium costs have already fallen by 50 percent, and median deductibles have dropped by 90 percent.³⁰ Because premium costs have been reduced, families have been able to enroll in better coverage that lowers their deductibles, cost sharing and out-of-pocket maximums. Once these improvements are fully implemented, total costs will fall by 23 percent, with each insured person saving more than \$1,100.³¹

In addition to providing struggling families with financial help when they buy their own insurance, Build Back Better lowers health insurance premiums for all people in the health care marketplaces, whether or not they use PTCs. That is because making insurance more affordable attracts relatively young and healthy people into the marketplace, making the risk pool healthier and cutting deductibles. This one aspect of Build Back Better, on its own, is projected to cut health insurance premiums by 18 percent.³² That reduction in costs will lead to improved economic security and health for families.

Total costs will fall by

23%

\$1,100

The savings of everyone
with insurance.

Build Back Better cuts the “hidden health care tax” that raises premiums to finance hospital uncompensated care

Build Back Better takes two major steps to end the gaps in health insurance coverage that result in providers “cross-subsidizing” uncompensated care, which raises health insurance premiums for everyone — the so-called hidden health care tax.

First, as described above, the Build Back Better legislation increases enrollment in coverage through the health insurance marketplaces by extending through 2025 ARPA’s increases to PTCs. Second, it provides affordable private health insurance to low-income adults who currently are uninsured because their states have refused to accept federal dollars to extend Medicaid coverage. Combined, these two policies will reduce the number of uninsured by seven million and cut hospitals’ uncompensated care by \$7.5 billion a year.³³ As a result, hospitals need to cover \$7.5 billion fewer losses each year by inflating charges to private insurers. These inflated charges shift the costs to the rest of us in the form of higher premiums. At the same time, unit costs charged for health care drop when services are paid by insurers, which negotiate price discounts, rather than by uninsured patients, who may be charged a higher, unnegotiated price of care. Taken together, these provisions in the Build Back legislation would lower health costs to families across the nation by tens of billions of dollars.

Cuts hospital uncompensated care by

\$7.5 BILLION/YEAR

Reduces the number
of the uninsured by

7 MILLION

Conclusion

Inflation is now a worldwide problem. Supply chain bottlenecks, coupled with pent-up demand for consumer goods, are increasing prices, especially when it comes to fuel, food and housing.

Build Back Better legislation would help struggling families cope with these increased expenses. While this analysis focuses primarily on health care, the legislation also helps with a broad range of other basic needs without increasing the federal deficit.

Rather than accelerate inflation, passing the Build Back Better legislation will help bring it under control, particularly for drug prices. Key portions of the legislation are part of a suite of national policy interventions to tackle the multifaceted supply chain bottlenecks causing today's inflationary spike. More importantly, while the nation's public and private sector leaders bring inflation under control, Build Back Better would give America's families desperately needed relief from multiple major financial burdens and would allow them to be more active participants in the workforce and economy.

This legislation makes historic investments in our nation's families, and it is fully paid for. Rather than being distracted by concerns of inflation and delaying legislative action, senators and representatives should provide their constituents with solutions as soon as possible to help them cope with rising living expenses.

Endnotes

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