The Daily Dish

Biden’s “Tax” Plan and “Growth”

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Eakinomics: Biden’s “Tax” Plan and “Growth”

Okay Eakinomics fans, fire up the coffee and buckle in. The presidential campaign has finally zeroed in on a meaty policy issue: Will Joe Biden’s plan to raise taxes hurt growth? Or, as the *New York Times* phrased it, “Would Biden’s Tax Plan Help or Hurt a Weak Economy?” Biden plans to raise somewhere between $2.4 and $2.8 trillion in taxes over 10 years. The notion is that the taxes would be targeted exclusively on businesses and individuals making more than $400,000 and would consist of a higher top individual rate, higher corporate rate, higher rate on dividends and capital gains, subjecting labor income over $400,000 to the 12.4 percent payroll tax rate, and others.

How should one think about this?

First, it will <u>not</u> be restricted to those over $400,000. Now, do not question for a second that it is the intent of the proposals to avoid taxing the middle class. But it simply is not economically possible to segregate the impacts on the high-income from everyone else. That is why the AAF analysis of the Sanders and Warren wealth taxes found that the majority of the burden was borne by the middle class. Since the bulk of the Biden tax agenda is higher taxes on capital income, he is just a wealth taxer in disguise. The same economic critique applies to his proposals – the middle class will pay a large price – and the fact that he pretends otherwise speaks to politics trumping economic reality.

Second, the reason “tax” is in quotes in the title is that there is <u>no</u> way that the Biden tax proposals will help the economy. They will make things worse, period. Actually, there is little dispute about this. Per the *New York Times*, “Mr. Biden and his advisers say tax increases now would accelerate growth by funding a stream of spending proposals that would help the economy, like infrastructure improvement and investments in clean energy. At least one independent study supports those claims, finding that Mr. Biden’s full suite of plans would bolster economic growth. Researchers at some conservative think tanks project that his tax increases would exert only a modest drag on the economy."

Take a look at that. Biden and his advisers say that the tax increases "would accelerate growth by funding a stream of spending proposals…" There you have it. The taxes are bad – how bad is the point made in the final line of the quote – but all the good news for growth – if there is any – is in the spending proposals. But notice that among the spending programs are infrastructure spending and clean energy. This gets to the third point.

Third, not everything that is a good idea will raise economic growth. Infrastructure – the silver bullet of the left – might have a modest effect over long periods. But the transition to clean energy is a cost to the economy. That costly transition will not raise growth (unless you only measure narrowly in solar panels or the like), but it will lead to fewer greenhouse gas emissions. That benefit *might* be enough to justify the policy, and that is the point. Supporting clean energy is not about growth. It is about abating emissions being more important than growth. But that is now how this is being sold.

Finally, there is a big difference between near-term and long-run growth. Long-run growth is about the tradeoffs outlined thus far. Higher taxes will hurt growth, the spending will help in some cases and not others, and the ultimate call depends on your values. Near-term growth is about recovering from the pandemic. When it comes to business cycles, the empirical work indicates that tax increases have a much more detrimental impact than the stimulus of the proposed spending programs.

So, there you have it. The Biden "tax" plan might be good for "growth," but the longer he waits the better are the odds.