The President’s “Plan” and the Debt Ceiling

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Beware POTUS’ taking to Twitter. Yesterday’s tweet featured: “I’ve got a plan to continue reducing the deficit – if only they’d listen.” It was accompanied by the graphic:

President Biden's Plan to Reduce the Deficit by $3 Trillion

Cut Spending	*Savings*
Cut handouts to Big Pharma	$200 Billion
Eliminate tax subsidies for oil and gas	$31 Billion
Eliminate real estate loopholes	$19 Billion
Eliminate cryptocurrency trading tax loopholes	$24 Billion

Raise Revenue	*Savings*
Impose a billionaire minimum tax	$400 Billion
Raise the top income tax rate	$200 Billion
Tax stock buybacks	$200 billion
Raise taxes on large corporations	$1.3 trillion
Impose a global minimum tax	$500 billion

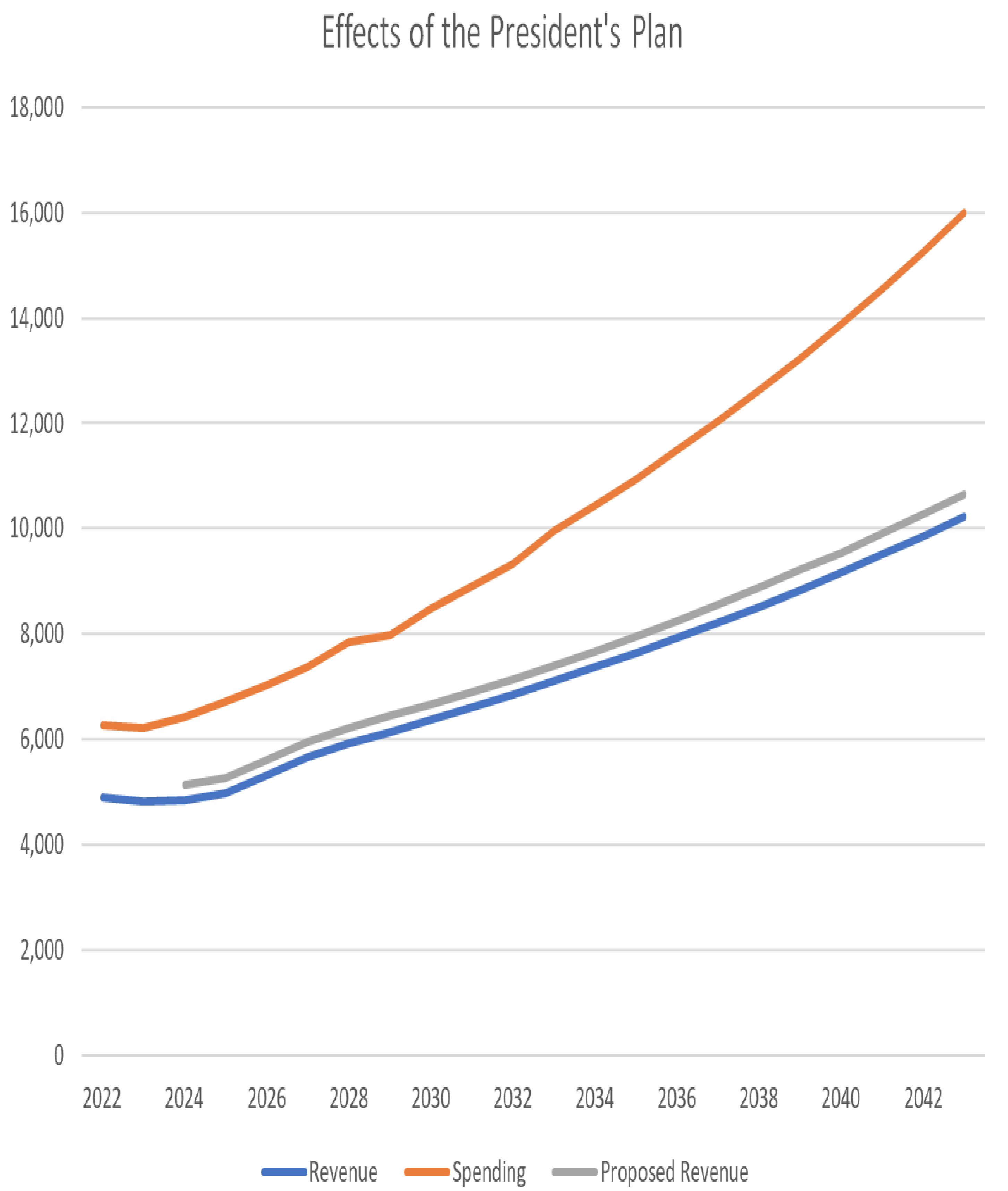
There are two things about the plan that are worth noting. First, there are no real spending cuts. “Eliminate cryptocurrency trading tax loopholes” is a tax increase. “Eliminate real estate loopholes” is a tax increase. “Eliminate tax subsidies for oil and gas” is a tax increase. “Cut handouts to Big Pharma” is a rhetorical flourish hiding the price controls being imposed on drugs used by seniors in Parts B and D of Medicare – price controls made possible by a confiscatory excise tax on those drugs.

The president’s plan is tax, tax, tax, tax, tax, tax, tax, tax, and tax.

The second thing to notice about the president’s plan is that it doesn’t do diddly (technical budget term) for the fiscal outlook. In the graph below, the orange line is total spending by the federal government. It is projected by taking the Congressional Budget Office baseline projection for total spending and extending it for an additional 10 years using the average growth rate from 2029–2033. The blue line is total revenues, projected in an analogous manner.

A key feature of the graph is that spending is growing faster than revenue as far as the eye can see, leading to ever-widening deficits. The president's "plan" does not change this at all. It simply shifts the blue line to the gray line – an average of $300 billion per year – a tiny droplet in the sea of red ink.

The policy moral is simple. The fiscal outlook cannot even be stabilized until the gap in the growth rates of spending and revenue is closed. Since revenue is limited to rise at roughly the rate of nominal economic growth, that means any serious plan cannot be tax, tax, tax, tax, tax, tax, tax, tax, and tax. It must control the growth of spending.


Effects of the President's Plan
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
2022
2024
2026
2028
2030
2032
2034
2036
2038
2040
2042
Revenue
Spending
Proposed Revenue