



# ***Rodney's Take***

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## **Joe Biden, the Six Trillion Dollar Man**

As a child of the 1970s, I'm quite familiar with Steve Austin (Lee Majors), the Six Million Dollar Man. For a boy in his tweens, the campy television show had two great things going for it, Farrah Fawcett and Lindsay Wagner. The idea of a bionic man was sort of cool, but it wasn't the main draw. The show came back to me last week as I looked over Joe Biden's latest proposal, the \$1.8 trillion American Families Plan.

Combining this with his previous American Rescue Plan (\$1.9 trillion) and the American Jobs Plan (\$2.2 trillion), President Biden is attempting to become the \$6 trillion man, but without the added benefit of Ms. Fawcett or Ms. Wagner. Still, for a significant portion of our nation, the plans are very attractive, because they provide or at least promise something that most people crave, security. But security comes at a price, typically in the form of higher cost as well as lost opportunities.

The rescue plan sent extra cash to most American adults, which pushed the U.S. savings rate to 21% last quarter, three times the rate before the pandemic. With many businesses still shut, the money is sitting in bank accounts waiting to be spent, like fuel in the tank of an idling car waiting to jump off of the line. Banks aren't using the extra deposits to make loans. Instead, they're holding the cash at the Fed in the form of excess reserves. The four largest banks now hold twice as much in deposits as they have loans outstanding, a ratio that was roughly 1:1 before the Fed began paying interest on excess reserves (IOER) in 2008. It's unlikely the extra money will be used for capital expenditures, which would take the form of bank loans. Consumers are likely to spend down a chunk of the extra

money as the economy reopens, turning it into excess consumption instead of long-term investment.

The jobs plan was billed as infrastructure, but only 15% of it goes toward roads, bridges, etc. The rest is aimed at mitigating climate change, building affordable housing, and providing child care. Those items aren't infrastructure, but that doesn't matter. The proposal adds significantly more spending and decision-making at the federal level, with the national administration determining what projects are funded, where housing is built, who gets access to care, and who qualifies to be involved in each sphere. There is no question that those decisions will be made with political considerations in mind.

Which brings us to the American Families Plan. With his latest proposal, Biden goes all in for people with kids, promising to provide child care, nationally funded paid family and medical leave, universal pre-K, and even two years of community college. At a time when birth rates are falling as potential parents warily eye the cost of raising kids, these programs might give some young couples the confidence to take the plunge. That would be great news for our population level.

But none of this is free.

Biden often quips that he won't raise taxes on people earning less than \$400,000. I believe him, but that doesn't mean we won't pay more, even those of us with meager earnings. There aren't many, if any, examples of government-subsidized goods that cost less over time. If you think quality child care is expensive today, wait until the government "pays" for care for part of the population. And government-funded nursing facilities typically aren't the best places.

On the other side, Biden intends to fund these programs by raising taxes on businesses and wealthy individuals. If businesses have pricing power, which is likely over the next 18 months at least, with so much money chasing goods and services, why would they cut into their profits to pay higher taxes when they simply can raise prices? Those higher prices become inflation for consumers, spreading the cost to everyone, and will

take a larger percentage of earnings from lower-wage families. Higher-income families might pay a bit more in taxes, but taxpayers with means are fairly good at finding the next great way to avoid sending more to Uncle Sam.

This leaves the elephant in the room, the national debt. We've added trillions of dollars to our national debt in the past year, and the Biden administration's plans will likely add trillions more. Today, it's not a problem. Interest rates are low, and the world will buy as much debt as we want to issue. This won't always be the case. When it changes, we're likely to see the dollar fall in value. It won't be financial Armageddon or a repeat of the Weimar Republic, but our collective purchasing power will dwindle, which will be another rung up on the inflation ladder, taking more money and choices away from all American consumers.

The American Rescue Plan and American Jobs Plan are popular with the public. I haven't seen a poll on the American Families Plan, but I don't think it will be different. Most people seem to be pretty good with getting "free" stuff when the cost is distant and hard to quantify. Unfortunately, that doesn't make the cost disappear. We will still pay. We always pay.

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*Got a question or comment? You can contact us at [info@hsdent.com](mailto:info@hsdent.com).*