Rodney's Take

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When $3.5 Trillion Is Not Enough

President Biden, along with House Speaker Pelosi and Senate Majority Leader Schumer, wants to oversee the greatest increase in government benefits in the U.S. since the Great Depression. The Build Back Better (BBB) plan calls for free education, more childcare dollars, paid leave, funding of consumer spending on green technology, and a host of other things. The government estimates the price tag to be $3.5 trillion, but that's not quite right. If we look a little closer, we can see that the plan likely will cost at least $1 trillion more as written and $1.25 trillion more with add-ons yet to come.

The last stimulus bill bumped up the child tax credit this year to $3,600 per child under six and $3,000 for children between six and 17. The BBB makes those changes permanent, which is a great deal for parents but an expensive proposition for Uncle Sam and taxpayers. The additional child tax credit dollars would add about $1.6 trillion to the U.S budget over the next ten years. To trim that amount, President Biden and Congress did not adjust the benefit; instead, they gave it an expiration date. According to the BBB, the expanded child tax credit will expire in 2025, effectively raising taxes on the families receiving it. This budgetary sleight-of-hand reduces the cost of the BBB by about $1 trillion.

Raise your hand if you believe Congress would allow the expanded child tax credit to disappear in 2026 and beyond. Anyone?

And then there is the little matter of what's not included in the plan: it lacks SALT.

The 2017 Jobs Cut and Tax Act (JCTA) partially offset tax cuts by capping deductions for state and local taxes (SALT) at $10,000. This deduction primarily benefits high-income and wealthy taxpayers in high-tax, high-property-value states such as California, New York, and New Jersey. Citizens and lawmakers in these states have demanded that Congress reinstate the full deduction, but there's a problem. This will be a giveaway to the rich, which is not a good look for Biden and current Congressional leaders. But don't think that this will stop them. Instead, it's likely they simply won't mention it until the final markup of the bill, right before it's introduced for a vote, so as to limit the time to talk about it and the political fallout.

Adding additional giveaways will cost more, but Democrats, like Republicans before them, will point to "dynamic scoring" as their get-out-of-balancing-the-bill card. Dynamic scoring calls for estimating how much tax revenue will be generated by economic growth that stems from legislative changes. Lowering taxes drains money from the Treasury, but it is supposed to lead to higher economic activity, which increases tax revenue. The Trump White House estimated that tax cuts in the JCTA would add between 3% and 5% to GDP growth, which was a pipe dream. The Congressional Budget Office estimated the JCTA would add about 0.8% to GDP growth, which turned out to be both closer to reality and not nearly enough to pay for the JCTA tax cuts.

Whether we agree with the BBB or not isn't the point. We should be clear-eyed when creating new benefit and entitlement programs, because once in place, they are almost impossible to reverse. Instead, they grow.

So far, we know the framework for paying for the BBB includes raising the top tax rate back to 39.6% on those making more than $400,000, raising the corporate tax rate to 26.5%, imposing a 3% tax on income above $5 million, raising the capital gains tax to 25%, and imposing a tax on company stock buybacks. The tax on tobacco and smoking products also would go up, but no one wants to talk about that, because most smokers are lower income.

When these taxes aren't enough to cover the stated costs of the new programs and then fall woefully short of covering the actual costs over the next several years, we know what will happen. The U.S. Treasury simply will issue more debt, which in a roundabout way the Fed eventually will buy. To make this palatable, interest rates in the two-to-seven-year maturity range must stay exceptionally low to keep government interest payments low.

The long, steady trend of bleeding value from savers to the government through financial repression will continue, but no one will ever admit that.

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Got a question or comment? You can contact us at info@hsdent.com