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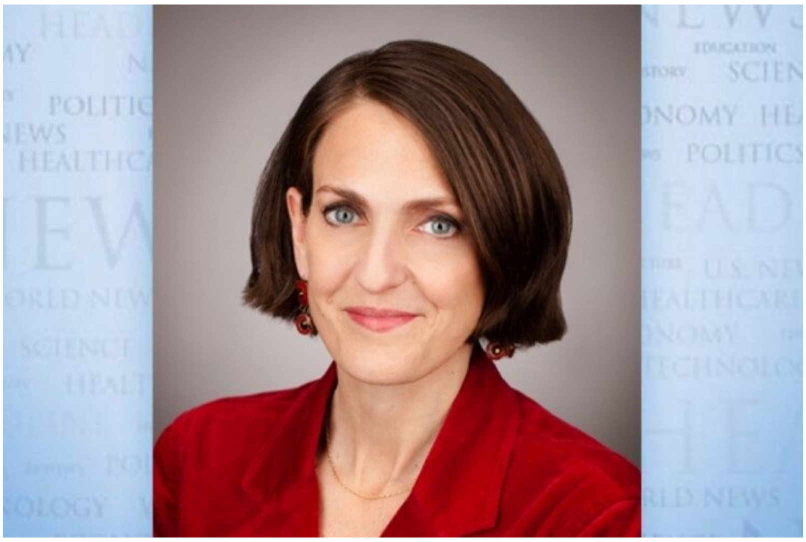
# The President's Budget Reveals the Real Priority: Tax Hikes

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Budgets are about priorities. In the Biden administration's new budget, its apparent priorities are marred by problems. Here's the cheat-sheet version: Rather than containing explosive growth in spending, it would use a bunch of new taxes to wage class warfare.

While this budget is dead on arrival in Congress, it's worth reviewing some reasons why this is so. The president aspires to spend around $6.9 trillion next year, a 55% increase over pre-pandemic levels, and $10 trillion by 2033. While Biden hopes to raise an extra $4.7 trillion over 10 years in taxes, the debt would nevertheless grow over the next decade by $19 trillion as the debt-to-GDP ratio increases from 98% to 110%. All this debt in a high-interest rate environment would have Uncle Sam fork over $10.2 trillion in interest payments alone over that time.

Adding to this fiscal calamity is that Social Security benefits could be automatically cut by some 20% within the next decade or so if the program is not reformed. Biden does propose to reform Medicare, but his means are class-warfare taxes, price controls and transfers from the general fund. There are no improvements to the program's own finances. So, Biden's seemingly aggressive plan fails to solve one of the biggest budgetary challenges we face as a country going forward.

Instead, the budget suggests all kinds of ways to raise tax revenue, many of which would fail to do even that.

In our system, no matter how high tax rates have been, the federal government has never managed to capture more than 19% of GDP for long. This constraint means that if Washington decides to spend over 25% of GDP, American taxpayers are being committed to major deficits to cover the difference.

Yet, someone in the Biden administration believes that facts like these don't apply today. For instance, the budget raises corporate-income taxes from 21% to 28%. Economists have shown that most of the burden would fall on workers in the form of lower wages.

Further, Biden would roughly double the official capital gains tax rate for investments to 39.6%. But according to Americans for Tax Reform, "The U.S. currently has a combined capital gains rate of over 29 percent, inclusive of the 3.8 percent Obamacare tax and the 5.4 percent state average capital gains rate. Under Biden, this rate would approach 50 percent." What does the administration think this will do for investment in the green-energy innovations it wants to unleash?

Even more concerning, the administration wants to impose an annual 25% minimum tax rate on the unrealized capital gains of individuals with income and assets exceeding $100 million. These gains aren't income; they're assets that have gone up in value on paper — something that might disappear overnight. More importantly for everyone else, this wealth tax would reduce the amount of capital invested in productive, job-generating projects — meaning economic growth, innovation and wages would all decline.

Next, the budget would raise Medicare taxes by 32% for individuals earning over $400,000 annually. The tax would apply to business and investment incomes, wages and self-employment incomes. As a result, it will hit many small businesses, going against Biden's pledge to spare them from his efforts to expand Leviathan.

There are even more tax hikes in this budget, but you get the idea. The higher taxes on small businesses and entrepreneurs, as well as less capital funding, would slow growth and hence put downward pressure on tax revenues.

This is not just some quirk to be corrected in the American tax system. Wealth taxes have been tried on large scales in Europe and have ignited such intense incentives to escape to friendlier tax environments that they've rarely raised much revenue. They do, however, have significant administrative and economic costs — costs that would only further dampen American economic growth.

Economic studies have shown the negative impact that large increases in government spending and the debt burden have on economic growth. Obviously, further hindering our already-subpar growth rates would severely impair people's ability to climb the economic ladder. But the most unfortunate impact — even in a relatively rich country — is that too sluggish of an economy can bring out the worst in us. Indeed, less opportunity means more tribalism and division. That can threaten the peace, democracy and liberal values we take for granted.

In that sense, this budget is not only a commitment to less growth because of its taxes and spending, but a missed opportunity to give a little more economic hope to a divided and hostile America.

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