

Economic Consequences of President Biden's Fiscal Policy

BY DANIEL J. MITCHELL AND ROBERT P. O'QUINN

Executive Summary

President Biden has proposed to increase the burden of federal spending substantially over the next 10 years, diverting nearly \$5.5 trillion from the private sector to the government according to independent experts.

Most, but not all, of this new spending would be financed with higher tax rates on work, saving, investment, and entrepreneurship. Indeed, if the plan were to be enacted, the United States would have both the highest corporate tax rate and the highest capital gains tax rate in the developed world.

Based on scholarly academic research, including new findings from the nonpartisan Congressional Budget Office, Biden's tax-and-spend agenda contained in his reconciliation bill will accelerate America's fiscal decline and undermine economic performance.

The Biden fiscal agenda also will reduce the capital stock and lower rates-of-return on investments, thus causing a \$1 trillion-plus loss in financial wealth and hurting the retirement savings of American workers.

The bottom line is that the President's tax-and-spend agenda repeats the mistakes of nations such as France, Italy, and Greece. Those nations suffer from slower

growth, higher unemployment, and lower living standards, in large part because of bad fiscal policy.

Since the laws of economics are the same on both sides of the Atlantic Ocean, similar grim results will occur in the United States.

Biden's tax-and-spend agenda

accelerates America's fiscal decline

- A LOSS OF \$3 TRILLION OF ECONOMIC OUTPUT OVER THE NEXT 10 YEARS
- A LOSS OF \$1.6 TRILLION OF WORKER COMPENSATION OVER THE NEXT 10 YEARS
- A LOSS OF MORE THAN \$10,000, ON AVERAGE, IN COMPENSATION FOR WORKERS OVER THE NEXT 10 YEARS
- A LIFETIME DROP IN LIVING STANDARDS OF ALMOST 4 PERCENT FOR YOUNG WORKERS

Introduction

President Biden and his allies in Congress are pushing a “huge tax-and-spend measure,”¹ an unprecedented multi-trillion expansion in the burden of government spending, accompanied by massive tax increases.

Copying European-style fiscal policy will produce European-style economic weakness, particularly when considering that much of Biden’s new redistribution spending will discourage work and much of Biden’s class-warfare tax increases will penalize saving, investment, and entrepreneurship.

This report will estimate the economic consequences of these policies, using highly regarded academic research and mainstream sources to assess the impact on American households with regards to jobs, income, and investment.

What the President Wants

President Biden’s budget (which included both the infrastructure and reconciliation bills) proposes a federal spending burden over the next 10 years of \$69.2 trillion, an increase of almost \$5 trillion over the baseline (what spending would be if left on autopilot).²

Remarkably, expanding the welfare state accounts for every single penny of the net expansion of the spending burden. As the *New York Times* recently noted, Biden’s plan represents “a cradle-to-grave reweaving of a social safety net” that would “fundamentally change the relationship between the state and its citizens.”³

To make matters worse, these numbers are too optimistic. The President’s budget relies on budget gimmicks (such as assumptions that some programs will disappear) to reduce the amount of new spending artificially. The Committee for a Responsible Federal Budget calculated that the

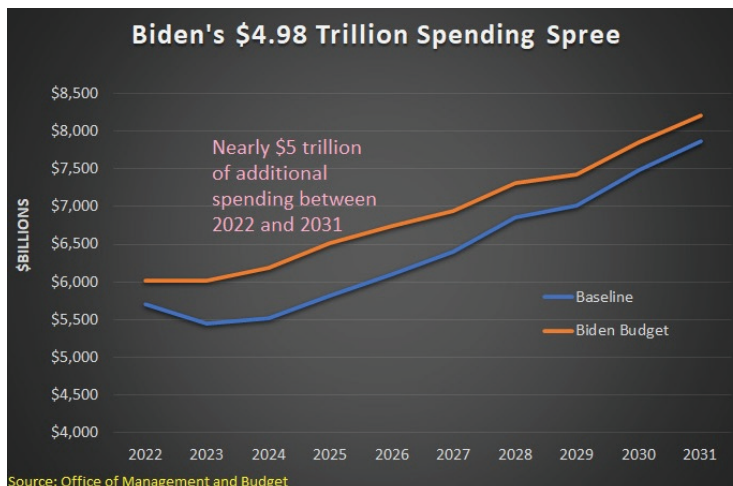
real cost of Biden’s reconciliation bill, not counting the infrastructure plan, is not \$3.5 trillion, but closer to \$5.5 trillion.⁴

The President’s massive spending increases are accompanied by huge tax increases, more than \$3.6 trillion over the next 10 years according to the White House.

Here is just a sampling of those tax increases:⁵

- An increase in the federal corporate tax rate from 21 percent to 28 percent. When combined with existing state corporate taxes, the United States would have the highest tax burden on businesses in the developed world. \$858 billion tax hike
- An increase in the global minimum tax on American companies competing in world markets. \$534 billion tax hike
- An increase in the double taxation of investment, subjecting the nation to the developed world’s highest capital gains tax rate.⁶ \$322 billion tax hike

EXHIBIT 1 | BIDEN SPENDING PROJECTION



1. Bernie Becker, “Weekly Tax,” *Politico*, September 7, 2021. <https://www.politico.com/newsletters/weekly-tax/2021/09/07/its-go-time-797441>
2. Budget of the United States Government, FY2022, Office of Management and Budget. https://www.whitehouse.gov/wp-content/uploads/2021/05/budget_fy22.pdf
3. Jonathan Weisman, “From Cradle to Grave, Democrats Move to Expand Social Safety Net,” *New York Times*, September 6, 2021. <https://www.nytimes.com/2021/09/06/us/politics/democrats-biden-social-safety-net.html>
4. Committee for a Responsible Federal Budget, “True Cost of Budget Plan Could Exceed \$5 Trillion,” July 19, 2021. <https://www.crfb.org/blogs/true-cost-budget-plan-could-exceed-5-trillion>.
5. Department of the Treasury, “Revenue Proposals,” May 2021. <https://home.treasury.gov/policy-issues/tax-policy/revenue-proposals>
6. Clifton Painter, “Biden’s Top Marginal Capital Gains Tax Rate Would Be Highest in OECD,” *Tax Foundation*, July 6, 2021. <https://taxfoundation.org/biden-capital-gains-tax-rate-oecd/>

- A minimum tax on corporate “book income,” creating an additional tax on U.S. companies. \$148 billion tax hike
- An increase in the top tax rate on households. \$132 billion tax hike
- The White House also has very optimistic estimates for big revenue collections from measures to increase the government’s ability to audit and monitor taxpayers:
- Expand the size and power of the Internal Revenue Service. \$266 billion tax hike
- Give the IRS automatic access to all bank account transactions. \$463 billion tax hike

And here’s a sampling of some of the dozens of other provisions that would increase the cost of work, saving, investment, and entrepreneurship:

- Increased double taxation of one-time payments to shareholders (stock buybacks)
- Creation of a hybrid death tax/capital gains tax (taxing capital gains at death)
- Increasing capital gains taxation on private equity (carried interest)
- Higher taxes on the energy industry

Last but not least, there are other tax provisions that Democrats in the House and Senate plan to include when the tax bill moves through Congress:⁷

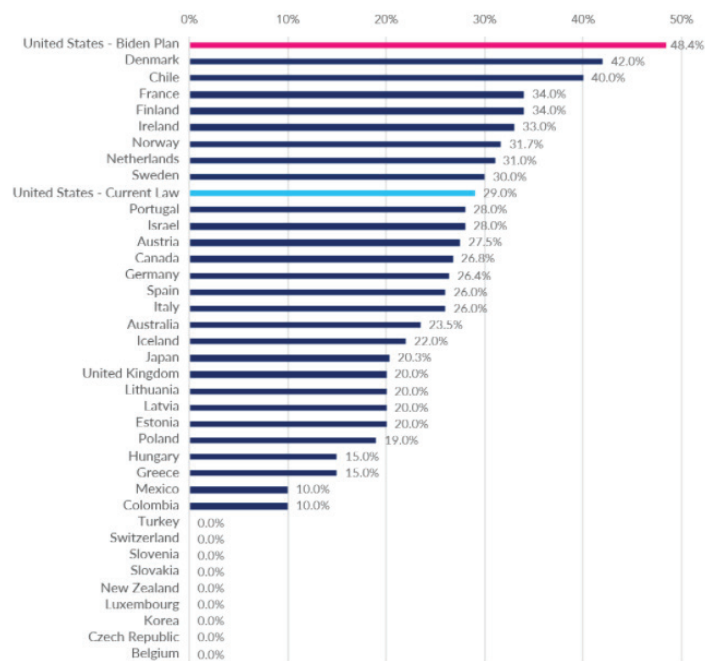
- A protectionist carbon tax on imports
- A tax on plastic purchases

The economic impact of Biden fiscal agenda on households

Economic analysis looks at both the direct and indirect effects of policy changes. The direct effect of a policy change is somewhat simple to measure:

EXHIBIT 2 | TOP COMBINED CAPITAL GAINS TAX RATE WOULD BE HIGHEST IN THE OECD UNDER BIDEN’S PLAN

Top Marginal Long-term Capital Gains Tax Rates on Individuals in OECD Countries, 2020



Source: Daniel Bunn and Elke Asen, “Savings and Investment: The Tax Treatment of Stock and Retirement Accounts in the OECD,” Tax Foundation, May 26, 2021.

- How much additional money will a taxpayer turn over to the IRS because of a particular change in one or more tax rates?
- How much additional money will a beneficiary receive because of the creation or expansion of a redistribution program?

But “somewhat simple” does not necessarily mean accurate. For instance, it’s easy to estimate that a group of taxpayers with a certain amount of income will owe a specific amount of money when a tax rate is increased. But if some or all of those taxpayers change their behavior in ways that reduce taxable income, the easy calculation winds up being inaccurate.

Similarly, it may be straightforward, based on current patterns of income and behavior, to estimate the budgetary burden if the government creates or expands redistribution programs. But that straightforward calculation may wind up being wrong if people change their behavior to become eligible for various programs.

7. Naomi Jagoda, “Senate Democrats float taxes on stock buybacks, plastics to pay for spending plan,” *The Hill*, September 3, 2021. <https://thehill.com/policy/finance/570754-senate-democrats-float-taxes-on-stock-buybacks-plastics-to-pay-for-spending>

These “microeconomic” changes help to explain why President Biden’s fiscal plan will produce big “macroeconomic” changes that adversely affect national prosperity.

Anti-growth spending policy

From an economic perspective, not all government spending is created equal. All outlays divert money from the economy’s productive sector, which undermines growth, so the relevant issue is to identify the types of spending that generate offsetting benefits.

It is generally assumed that outlays for genuine “public goods” such as administration of justice and national defense generally pass a cost-benefit test. Outlays for “capital” such as roads and bridges may help growth if money is spent wisely and there is no “crowding out” of private investment.

Most of the federal budget, however, is used for “transfer” programs, and research by public finance economists suggest that higher outlays for these welfare and redistribution programs slow economic growth.

That’s the bad news. The worse news is that most of the spending increases in President Biden’s budget are for these programs.

There are two prominent reasons why such spending will undermine growth:

1. Labor supply will decrease, and the job market will suffer when welfare and redistribution programs change the relative attractiveness of work vs. leisure
2. Economic dynamism and productivity growth will suffer when trillions of dollars are diverted to government from the productive sector of the economy.

Anti-growth tax policy

From an economic perspective, not all taxes are created equal. Taxes at modest rates do not have pronounced negative effects on incentives to work, save, and invest.

For instance, a flat 5 percent tax – whether on income or consumption – presumably will not meaningfully reduce peoples’ willingness to earn or consume.

Unfortunately, President Biden is pursuing class-warfare tax increases that are deliberately designed to impose high tax rates on the productive behaviors that create a prosperous society:

1. What happens when higher tax rates discourage labor supply and entrepreneurship?
2. What happens to the nation’s capital stock (equipment, structures, and intellectual property) when higher tax rates change the relative attractiveness of consumption vs. saving and investment?

There is considerable economic research suggesting these types of taxes cause significant economic damage.⁸

Measuring the impact of Biden’s fiscal package on family prosperity

One way to measure the effect of the President’s budget is to see what has happened to other industrialized nations that expanded the burden of government.

For instance, many countries in Western Europe have large welfare states and harsh tax burdens, like what President Biden is proposing for the United States. Examining their economic performance can provide some insight with regards to what may happen if the United States copies their fiscal policy.

Unfortunately, the results are not encouraging:

- Western European countries tend to grow slower than the United States, even though convergence theory suggests that they should grow faster.⁹

8. William McBride, “What Is the Evidence on Taxes and Growth?” Tax Foundation, December 18, 2012. <https://taxfoundation.org/what-evidence-taxes-and-growth> Also see Alex Durante, “Reviewing Recent Evidence of the Effect of Taxes on Economic Growth,” May 21, 2021. <https://taxfoundation.org/reviewing-recent-evidence-effect-taxes-economic-growth/>

9. International Monetary Fund, “World Economic Outlook Database,” April 2021. <https://www.imf.org/en/Publications/WEO/>

- As measured by the OECD's data on actual individual consumption, living standards in the United States are far higher than in Western Europe.¹⁰

While looking at data from Europe is instructive, the most rigorous way of assessing the impact of the Biden fiscal plan is to use scholarly research to directly estimate the impact of bigger government in the United States.

The academic literature on this topic is extensive.

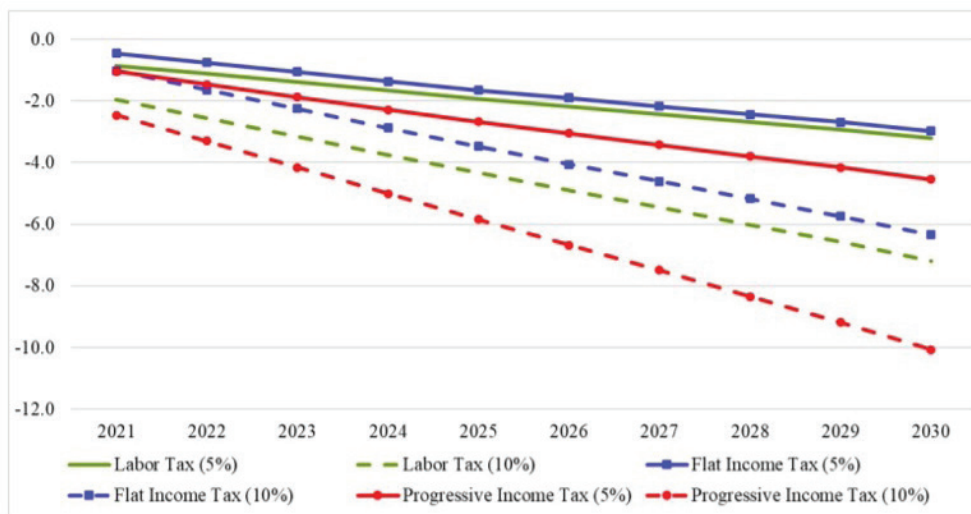
Perhaps most notably, the non-partisan Congressional Budget Office earlier this year released a thorough study looking at how the economy is affected by bigger government and higher taxes.

- In a Congressional Budget Office study, Jagger Nelson and Kerk Phillips (2021) examined a 5-percentage point and a 10-percentage point permanent increase in federal spending financed by a flat payroll tax, a flat personal income tax, and a progressive personal income tax effective in 2020. The size of the effect on GDP and consumption varies by method of taxation. An

increase in progressive income taxes on all sources of income leads to the largest drop in capital. Because higher-income households save a larger proportion of their income than lower-income households, their saving choices have a larger effect on the capital stock. A progressive income tax imposes higher tax rates on the labor income of higher-income households and thus reduces the capital stock more than a flat income or flat labor tax. Furthermore, the after-tax rate of return on private wealth falls the most under a progressive income tax, which reduces the incentive to save. A uniform tax on labor and a flat tax on all income have smaller effects on capital stock of similar sizes. Progressive income taxation also leads to the largest drop in labor supply. The net result of the labor and capital movements is that long-run GDP declines the most under progressive income taxation. Private consumption also drops the most under progressive income taxation. The CBO baseline assumes an average real GDP growth rate of 1.5 percent over ten years. In simulations in which taxes increase to finance an increase in government spending of 5 percent

EXHIBIT 3 | GDP RELATIVE TO THE BENCHMARK SIMULATION

Percent



Data source: Congressional Budget Office.

The figure shows the percentage difference in the path of GDP under the six policy simulations from the path in the benchmark economy.

GDP = gross domestic product.

[weo-database/2021/April](https://www.oecd-ilibrary.org/economics/national-accounts-of-oecd-countries/volume-2020/issue-2_e0a46a56-en)

10. Organization for Economic Cooperation and Development, "National Accounts of OECD Countries, 2020," October 9, 2020. https://www.oecd-ilibrary.org/economics/national-accounts-of-oecd-countries/volume-2020/issue-2_e0a46a56-en

of GDP, real GDP increases by 1.1 percent (0.4 percent below baseline), 1.1 percent (0.4 percent below baseline), and 1.0 percent (0.5 percent below baseline) per year on average for a labor tax, flat income tax, and progressive income tax, respectively. As illustrated by Figure 1 from the study, real GDP growth under an increase in government spending of 10 percent of GDP is 0.7 percent (0.8 percent below baseline), 0.8 percent (0.7 below baseline), and 0.4 percent (1.1 percent below baseline) per year on average for a labor tax, flat income tax, and progressive income tax, respectively.¹¹

- In a book, *Golden Growth: Restoring the Lustre of the European Economic Model*, published by the World Bank, Indermit Gill and Martin Raiser (2012) wrote:

There are good reasons to suspect that big government is bad for growth. Taxation is perhaps the most obvious (Bergh and Henrekson 2010). Governments have to tax the private sector in order to spend, but taxes distort the allocation of resources in the economy. Producers and consumers change their behavior to reduce their tax payments. Hence certain activities that would have taken place without taxes, do not. Workers may work fewer hours, moderate their career plans, or show less interest in acquiring new skills. Enterprises may scale down production, reduce investments, or turn down opportunities to innovate. ...Over time, big governments can also create sclerotic bureaucracies that crowd out private sector employment and lead to a dependency on public transfers and public wages. The larger the group of people reliant on public wages or benefits, the stronger the political demand for public programs and the higher the excess burden of taxes. Slowing the economy, such a trend could increase the share of the

population relying on government transfers, leading to a vicious cycle (Alesina and Wacziarg 1998). Large public administrations can also give rise to organized interest groups keener on exploiting their powers for their own benefit rather than facilitating a prosperous private sector (Olson 1982).¹²

- Davide Furceri and Ricardo M Sousa (2009) analyzed the impact of government spending on the private sector, assessing the existence of crowding-out versus crowding-in effects. Using a panel of 145 countries from 1960 to 2007, the results suggest that government spending produces important crowding-out effects, by negatively affecting both private consumption and investment. Furceri and Sousa found a negative and statistically significant effect of government consumption on private consumption. The cumulative effect of a 1.0 percent of GDP increase government consumption on private consumption is a decrease of 1.9 percent, of which is an immediate decrease of 1.2 percent in private consumption and another decrease of 0.7 percent in private consumption lagged over four years. Similarly, Furceri and Sousa found a 1.0 percent increase in government consumption had a negative and statistically significant effect on private investment with a cumulative decrease of 1.8 percent.¹³
- In an IMF study, Sandra Lizarazo Ruiz, Adrian Peralta-Alva, and Damien Puy (2017) assessed the macroeconomic and distributional impact of personal income tax (PIT) reforms in the U.S. drawing on a multi-sector heterogeneous agent model in which consumers have non-homothetic preferences and sectors differ in terms of their relative labor and skill intensity. The model generates positive effects on growth, consumption and investment that are broadly in line with the recent empirical literature on

11. Jaeger Nelso and Kerk Phillips, “The Economic Effects of Financing a Large and Permanent Increase in Government Spending,” Working Paper 2021-03, Congressional Budget Office, March 2021. <https://www.cbo.gov/system/files/2021-03/57021-Financing.pdf>

12. Indermit Gill and Martin Raiser, *Golden Growth: Restoring the Lustre of the European Economic Model*, Washington, DC: World Bank (2012), pg. 362.

13. Davide Furceri and Ricardo M Sousa, The Impact of Government Spending on the Private Sector: Crowding-out versus Crowding-in Effect, Núcleo de Investigação em Políticas Económicas Working Paper 6-2009 (2009). http://www3.eeg.uminho.pt/economia/nipe/docs/2009/NIPE_WP_6_2009.pdf.

PIT multipliers. Despite the positive macro response, supply side effects are never strong enough to prevent cuts from being revenue losing (i.e., tax cuts do not “pay for themselves”). The macroeconomic effect is sensitive to where in the income distribution the PIT cuts is targeted. A tax cut for the middle-class, financed from a lump-sum reduction in government spending, results in a loss of revenues of 0.8 percent of GDP but raises the steady state GDP by just under 1 percent after 5 years (i.e., a personal income tax multiplier of 1.1). PIT cuts for higher income groups tend to have a stronger aggregate effect than PIT cuts for the middle class. Indeed, in the simple case where the PIT cuts are paid for by a lump-sum reduction in government spending, the PIT multiplier is around 3. PIT cuts do have important “trickle down” effects. The tax cut generates an increased demand for non-tradable services which raises the demand for—and the wages of—low-skilled labor.¹⁴

- Ryan Bourne and Thomas Oechsle (2012) used regression analysis to estimate the effects of the size of government on GDP in a set of countries defined as advanced by the IMF between 1965 to 2020. Bourne and Oechsle found an increase in government outlays by 10 percentage points of GDP is associated with a decrease in the real GDP growth rate of 1.1 percentage points and an increase in taxation by 10 percentage points of GDP is associated with a decrease in the real GDP growth rate of 1.2 percentage points.¹⁵
- António Afonso and João Tovar Jalles (2011) analysed a wide set of 108 countries composed of both developed and emerging and developing countries, using a long-time span running from 1970-2008, and employing different proxies for government size and institutional quality to increase robustness. Afonso and Jalles found a significant negative effect of the size of government on growth.¹⁶
- In a European Central Bank (ECB) study, Andrea Basanini and Stefano Scarpetta (2001) found a 1 percentage point of GDP increase in taxation led to a 0.6 to 0.7 percentage decrease in output per working age person in OECD countries.¹⁷
- In an OECD study, Jean-Marc Fournier and Åsa Johansson (2016) provided evidence on the effects of the size and the composition of public spending on long-term growth through an estimated baseline convergence model that captures the long-term effect of human capital and total investment on potential output for a panel of OECD countries. First, consistent with the literature (Bergh and Henrekson, 2011), larger governments are significantly and negatively associated with long-term growth. Second, spending on education and investment rather than other spending items boost long-term growth. This is in line with growth theory that holds long-term growth crucially hinges on the accumulation of human capital (Mankiw et al., 1992; Lucas 1988; Romer 1990). Public investment boosts long-term growth, particularly where market failures lead to under-investment by the private sector (IMF, 2015). Increasing the share of public investment in primary spending by one percentage point (offset by a reduction in other spending) would increase the long-term GDP level by about 5 percent. By contrast, pension spending reduces growth. Increasing the share of pension spending in primary spending by one percentage point (offset by a reduction in other spending) would decrease potential GDP by about 2 percent. Public spending on subsidies also reduces growth. Increasing the share of public subsidies in primary spending by one percentage point would decrease potential GDP by about 7 percent. This corresponds to a decrease of annual potential growth by about 0.1 percent. Larger governments can impede convergence because they are associated with

14. Sandra Lizarazo, Adrian Peralta-Alva, and Damien Puy, “Macroeconomic and Distributional Effects of Personal Income Tax Reforms: A Heterogenous Agent Model Approach for the U.S.,” IMF Working Paper 17/192 (2017). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3124374

15. Ryan Bourne and Thomas Oechsle, Small is Best: Lessons from Advanced Economies, Centre for Policy Studies (2012). <https://www.cps.org.uk/files/reports/original/120522105633-smallisbest.pdf>

16. António Afonso and João Tovar Jalles, Economic Performance and Government Size, European Central Bank Working Paper No. 399 (2011). <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1399.pdf>

17. Andrea Basanini and Stefano Scarpetta, The Driving Forces of Economic Growth: Panel Data Evidence for the OECD Countries, OECD Economic Studies No. 33, 2001. <https://www.oecd.org/economy/growth/18450995.pdf>

higher taxation that can discourage business investment including foreign investment and households to supply labour.¹⁸

- In an OECD study, Akgun, Cournède, and Fournier (2017) used the experience of 34 OECD countries over 1980-2014 to assess the effects of revenue-neutral changes in the tax structure on the long-term level of average output per capita. Akgun, Cournède, and Fournier found a strongly significant, statistically stable, negative link from the marginal effective rate of the CIT on long-term growth. Akgun, Cournède, and Fournier found that a revenue-neutral tax shift that reduce the effective marginal corporate income taxes (CIT) rate boosted long-term output. This finding is in line with the literature indicating that higher marginal tax rates on corporate income reduce incentives to supply more capital or increase its productivity. Looking at the personal income tax (PIT), Akgun, Cournède, and Fournier found greater progressivity in the marginal PIT rate in the top half of the income distribution reduced long-term output levels. Incorporating all effects at different income levels, a revenue-neutral shift toward higher marginal PIT rates reduced long-term real output. Akgun, Cournède, and Fournier found a revenue-neutral shift toward a value-added tax (VAT) had no effect on long-term output. Akgun, Cournède, and Fournier found a revenue-neutral shift toward environmental taxes had no effect on long-term output. In contrast, a revenue-neutral shift toward recurrent taxes on real property increased long-term output. In contrast, a revenue-neutral shift toward recurrent taxes on net wealth reduced savings and therefore reduced long-term output.

The bottom line

Compared to the baseline, President Biden’s reconciliation bill would increase the burden of government spending by \$5.48 trillion over the next 10 fiscal years. That increase means an additional 1.9 percent of the economy’s output (GDP) will be absorbed by the federal government.

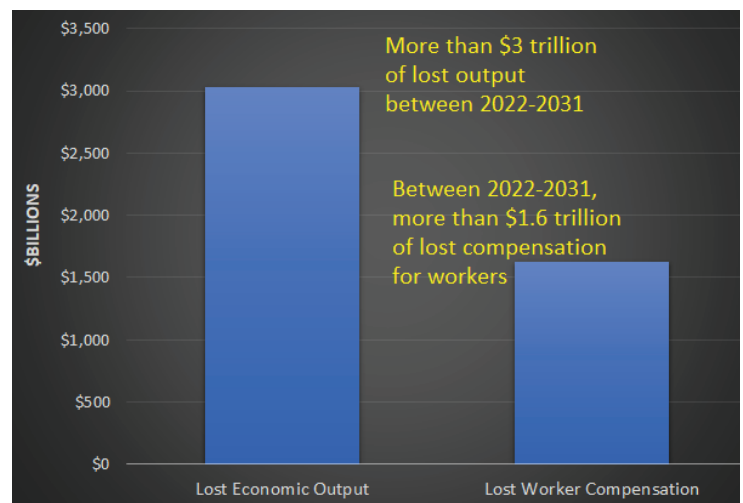
What does that mean for growth? Several scholarly studies were cited above, some with high estimates of economic damage and some with more modest estimates. For purposes of this report, we use the Congressional Budget Office’s mainstream findings that a 10-percentage point increase in government spending, financed by high tax rates, reduces long-term real GDP growth rate by 1.0 percent.

Which means that the Biden’s reconciliation bill, which increases the spending burden by 1.9 percent of GDP, will reduce the economy’s growth rate by about 0.2 percent each year.

That may not sound like a big reduction, but it translates into more than \$3 trillion less national income over the next decade. And the nation’s economic output will be \$613 billion lower in 2031 compared to what it would be in the absence of President Biden’s fiscal agenda.

Lower gross domestic product means lower household income. The cumulative loss of employee income over the next 10 years will exceed \$1.6 trillion. Some of that will be in the form of lower wages and some of that will be a consequence of lost jobs. On average, each worker in a nonfarm job will lose \$10,391 in total compensation and \$8,437 in wages and salaries between 2022-2031.

EXHIBIT 4 | ECONOMIC COSTS OF BIDEN’S FISCAL PLAN



18. Jean-Marc Fournier and Åsa Johansson, The Effect of the Size and the Mix of Public Spending on Growth and Inequality, OECD Economics Department Working Paper No. 1344 OECD Publishing, Paris (2016). <https://www.oecd.org/economy/public-finance/The-effect-of-the-size-and-the-mix-of-public-spending-on-growth-and-inequality-working-paper.pdf>

EXHIBIT 5 | AVERAGE CHANGE IN LIFETIME CONSUMPTION BY BIRTH COHORT AND INCOME LEVEL

<i>Birth Years</i>	<i>Bottom Third</i>	<i>Middle Third</i>	<i>Upper Third</i>
1940-1959	-0.2%	-0.2%	-0.3%
1969-1979	-0.8%	-1.4%	-2.0%
1980-1999	-2.1%	-3.1%	-4.3%
2000-2019	-2.8%	-3.9%	-5.2%

Lower levels of income mean lower living standards. Exhibit 5 in the CBO study estimated how much consumption would fall for different age groups if the burden of government spending increased by either 5 percentage points of GDP or 10 percentage points of GDP. Based on those numbers, we can infer the adverse impact on living standards if President Biden succeeds in increasing the spending burden by 2 percentage points of GDP.

The damage is greater for younger generations because they will be alive longer and thus suffer greater cumulative losses.

Estimating the effect of Biden’s proposal on the value of financial assets is a more speculative exercise.¹⁹ According to the SIFMA, the market value of equity and debt securities in US financial markets was \$95.1 trillion, of which \$65.2 trillion are corporate equity securities and \$29.9 trillion are debt security, at year end 2020.²⁰

There is a statistically significant relationship between real GDP and the aggregate market value of equity security in US financial markets. At the very least, the aggregate market value of equity security in US financial markets will decline by approximately the same percentage as the decrease in aggregate real GDP, or about \$1.3 trillion.

Conclusion

Because of poorly designed entitlement programs and demographic changes, the burden of government spending is projected to increase over the next few decades.²¹ And that’s assuming lawmakers don’t approve any additional spending increases.

But we will have more than \$5 trillion of additional spending if President Biden’s fiscal plan is approved. This massive spending increase will divert resources from the economy’s productive sector, and it will be partly financed by punitive, class-warfare taxes that penalize work, saving, investment, and entrepreneurship. This tax-and-spend agenda will accelerate America’s fiscal decline and undermine economic performance. Using mainstream academic research as a guide, it is possible to calculate the likely economic effects:

- A loss of \$3 trillion of economic output over the next 10 years
- A loss of \$1.6 trillion of worker compensation over the next 10 years
- A loss of more than \$10,000, on average, in compensation for workers over the next 10 years
- A lifetime drop in living standards of almost 4 percent for young workers

Let’s close with a grim observation about one likely outcome of Biden’s policies. If history is any guide, the entitlement expansions in the President’s budget plan will cost more than projected and the class-warfare tax increase will generate less revenue than projected.

How will politicians address this imbalance? Based on the European evidence, the seemingly inevitable result will be a value-added tax – a massive burden on low-income and middle-class households.

19. The market value of US financial markets reflects the performance of the US domestic economy but also the performance of the global economy. Large US corporations produce and sell goods and services worldwide. Foreign corporations sell goods and services in the US and list their equity and debt securities on US financial markets. Thus, the fiscal policies of foreign governments also affect the market value of equity and debt securities in US financial markets. Moreover, US monetary policy affects the market value of equity and debt securities in US financial markets. Disentangling and estimating the effects of a change in US fiscal policy on the market value of equity and debt securities in US financial markets is thus very difficult.

20. Capital Markets Fact Book 2021. <https://www.sifma.org/resources/research/fact-book/>

21. Congressional Budget Office, “The Long-Term Budget Outlook,” March 4, 2021. <https://www.cbo.gov/publication/56977>

Statistical Appendix

We use the 2021 CBO study by Nelson and Phillips to adjust the projected baseline for GDP growth. We calculate adjusted nominal GDP by lowering the CBO baseline GDP growth rate by a -0.1905 percentage points. This reflects an 1.905% increase in aggregate nominal federal spending as a percent of aggregate nominal CBO baseline GDP multiplied by a factor of -1.0 percentage point reduction in the GDP growth rate per 10 percentage point increase in government spending as a percent GDP. We calculate adjusted nominal total compensation by multiplying adjusted nominal GDP by the CBO baseline for labor's share of GDP. We calculate nominal wages and salaries by multiplying nominal adjusted total compensation by the CBO baseline for wages and salaries as a percentage of total compensation.

SUBJECT	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	10-YEAR AGGREGATE
Baseline CBO Nominal GDP in \$ Billions	\$22,401	\$24,323	\$25,356	\$26,191	\$27,077	\$28,033	\$29,103	\$30,195	\$31,305	\$32,449	\$33,670	\$287,702
Baseline CBO Nominal GDP Growth Rate	6.7%	8.6%	4.2%	3.3%	3.4%	3.5%	3.8%	3.8%	3.7%	3.7%	3.8%	
Adjusted CBO Nominal GDP in \$ Billions	\$22,401	\$24,280	\$25,265	\$26,049	\$26,880	\$27,778	\$28,785	\$29,810	\$30,849	\$31,917	\$33,057	\$284,671
Adjusted CBO Nominal GDP Growth Rate	6.7%	8.4%	4.1%	3.1%	3.2%	3.3%	3.6%	3.6%	3.5%	3.5%	3.6%	
Differene in Nominal GDP in \$ billions	\$0	\$43	\$91	\$142	\$197	\$255	\$318	\$385	\$456	\$532	\$613	\$3,031
CBO Baseline Employment, Total Nonfarm Jobs (Establishment Survey) in millions	145	152	155	155	155	156	156	157	157	158	158	
CBO Baseline Nominal Total Compensation in \$ billions	\$12,070	\$12,938	\$13,522	\$14,013	\$14,517	\$15,050	\$15,643	\$16,253	\$16,874	\$17,498	\$18,136	\$154,444
CBO Wages and Salaries in \$ billions	\$9,843	\$10,541	\$10,992	\$11,395	\$11,808	\$12,247	\$12,723	\$13,211	\$13,702	\$14,186	\$14,686	\$125,489
CBO Baseline Nominal Wages and Salaries/ Nominal Total Compensation in %	81.6%	81.5%	81.3%	81.3%	81.3%	81.4%	81.3%	81.3%	81.2%	81.1%	81.0%	
CBO Baseline Labor Share of GDP in % (Total Compensation/GDP)	53.9%	53.2%	53.3%	53.5%	53.6%	53.7%	53.7%	53.8%	53.9%	53.9%	53.9%	
Adjusted Nominal Total Compensation in \$ billions	\$12,070	\$12,916	\$13,473	\$13,937	\$14,412	\$14,913	\$15,472	\$16,046	\$16,628	\$17,211	\$17,806	\$152,814
Adusted Nominal Wages and Salaries in \$ billions	\$9,843	\$10,523	\$10,953	\$11,333	\$11,722	\$12,135	\$12,584	\$13,043	\$13,502	\$13,953	\$14,419	\$124,165
Difference in Nominal Total Compensation Per Nonfarm Job in \$ billions	\$0	-\$23	-\$49	-\$76	-\$106	-\$137	-\$171	-\$207	-\$246	-\$287	-\$330	-\$1,631
Percent Change		-0.2%	-0.4%	-0.5%	-0.7%	-0.9%	-1.1%	-1.3%	-1.5%	-1.6%	-1.8%	
Difference in Nominal Wages and Salaries Per Nonfarm Job in Billions	\$0	-\$19	-\$39	-\$62	-\$86	-\$112	-\$139	-\$168	-\$200	-\$232	-\$267	-\$1,324
Percent Change		-0.2%	-0.4%	-0.5%	-0.7%	-0.9%	-1.1%	-1.3%	-1.5%	-1.6%	-1.8%	