Higher taxes on corporations and wealthy would ‘slow economic growth,’ says economist

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As negotiations continue surrounding the $3.5 trillion reconciliation bill, some economists are questioning the Biden administration's claim that the bill won't cost a thing. Biden’s senior advisor Cedric Richmond said the legislation would be paid for by “raising taxes on the very wealthy and big corporations.”

"Higher corporate tax rates are going to be eventually borne by not just shareholders, but consumers and workers - and many of those are middle-class Americans," said senior fellow at the Cato Institute Scott Lincicome to The National Desk’s Jan Jeffcoat. “A lot of us are going to be paying the tab.”

Lincicome says taxes on the rich could deter investment in startups or spending on goods and services.

“All this is going to slow economic growth and dynamism,” said Lincicome. “It's for this reason that a lot of studies show that the tax package combined will cost hundreds of thousands of jobs and reduce GDP.”

Legislators on Capitol Hill are facing a deadline to increase the debt ceiling.

“I do regard October 18 as the deadline, it would be catastrophic to not pay the government's bills. I fully expect it would cause a recession,” said Secretary Janet Yellen.

What would happen if the government defaults on its bills? Lincicome says we don't exactly know as it's never happened before.

"Defaulting on the debt would probably lead to an automatic downgrade of the country's credit rating and that drives up interest rates and tightens credit markets. This would affect things like credit cards, auto loans, home loans, and other forms of debt," said Lincicome. "Default would surely also cause financial markets to crater, at least temporarily, and that would further undermine, not just your 401Ks, but long-term confidence in the U.S. economy."

Lincicome says the Treasury would also be forced to choose between paying debt interests or benefits like Social Security.

"That could mean smaller security payments and other government payments through U.S. federal entitlement programs," said Lincicome.

U.S. Trade Representative Catherine Thai announced a plan to reopen talks with Beijing regarding a potential U.S.-China trade plan. President Biden is likely to maintain U.S. tariffs against China.

"Studies show repeatedly that the widespread tariffs that Trump administration imposed on hundreds of billions of dollars in Chinese imports harmed U.S. consumers and manufacturers, deterred investment in the United States because of all the uncertainty, lowered GDP growth, hurt U.S. exporters, especially farmers when China retaliated," said Lincicome. "At the same time, the tariffs haven't done much to promote reshoring of essential industries to the United States."

Instead, says Lincicome, global supply chains shifted to other countries such as Vietnam, not to the U.S.

"They need to keep all of these things in mind, that the tariffs really aren't much leverage at all. They are causing a lot of pain, sure they're harming China too, but they're not really getting us anywhere," said Lincicome.