



Democrats Are Denying Basic Economics

Under Biden, Democrats have decided that their agenda has no costs and no tradeoffs.

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The simplest way to understand economics is that it is a reckoning with unavoidable tradeoffs. If you spend money on something, you may obtain something in return—but you lose the ability to use those resources on something else. In the world of politics, economics helps us weigh the merits of those tradeoffs. It answers the question: Do the benefits of a policy outweigh the costs? Sometimes the benefits are larger. Sometimes they are meager or even nonexistent. But there are always costs. To acknowledge this is merely to acknowledge reality.

Under President Joe Biden, however, Democrats in Washington have decided that they can simply wish those tradeoffs away by declaring that they do not exist. Over and over again, they have argued that their policies do not or should not have any costs whatsoever.

Just this week, for example, White House press secretary Jen Psaki responded to a question about the tax impact of the \$3.5 trillion spending plan now working its way through Congress by declaring that "there are some...who argue that in the past companies have passed on these costs to consumers...we feel that that's unfair and absurd and the American people would not stand for that."

When taxes are raised on corporations—the "companies" in Psaki's response—corporations often respond by passing that tax on to others. In some cases, they pass costs to consumers. In others, as the Cato Institute's Scott Lincicome wryly notes on Twitter, they reduce the amount they would have otherwise spent on wages. They have to pay more to do business, and so they make adjustments accordingly. Costs create consequences and tradeoffs.

Empirical research has consistently shown that a large portion of corporate tax increases is actually paid by labor down the line. There are some reasonable academic debates about the precise percentage of the tax paid by labor, and how that might change under certain circumstances. But there is little real debate about whether or not some of the costs are passed on. The point is that *it happens*. Workers, not owners, pay at least some share of higher corporate taxes.

Yet Psaki's position—the Biden White House's position—is that this sort of thing is "absurd and unfair."

One may feel that the omnipresence of gravity is unfair and absurd. Nevertheless, few people plan their lives around the ability to leap into the air and fly whenever they would like. We accept reality and make plans around its constraints, however absurd or unfair they may seem. To do otherwise would be foolish.

Yet that is essentially what Democrats are doing as they work to pass the Biden agenda. They are insisting that their plans, which are still in flux but amount to a call for some \$4 trillion in spending over two bills, have no real costs at all—or that the costs should not be factored in, because they are "unfair and absurd."

Just last week, Biden himself tweeted that the \$3.5 trillion spending bill would not actually cost \$3.5 trillion. Instead, its true price was more like nothing at all. "We talk about price tags. It is zero price tag on the debt," Biden said from a White House podium. "We are going to pay for everything we spend."

Biden's remarks came after a week in which congressional Democrats had run into something of an impasse over their spending plans. In response, they decided that the problem was not with the plans themselves, but with the messaging. Early messaging for the bigger of the bills, which is mostly focused on welfare state expansions and climate policy, had revolved around the \$3.5 trillion figure, which Democrats had taken to as a sign of how much they wanted to commit to their agenda. But the size of the spending package became a point of contention with moderates, who worried, understandably, that \$3.5 trillion was a lot of money—probably *too* much.

Some Democrats admitted that the final legislation would likely end up trimmed down. But some backers of the spending bill, like Sen. Bernie Sanders (I-Vt.) have continued to insist that there is nothing that could reasonably be cut. After all, the \$3.5 trillion figure was itself a compromise from their initial \$6 trillion ask.

So Democrats and their backers in the press focused most of their energy on altering the way they *described* the legislation.

Hence we were treated to essays attempting to downplay the cost with headlines like: "\$3.5 Trillion Is Not a Lot of Money" (*New York* magazine) and "It's Not Really a '\$3.5 Trillion' Bill" (*The New York Times*). And then, of course, there were the official statements from Biden and White House communications functionaries making claims like "it's just a fact" that the plan "adds \$0 to the debt."

It is not "just a fact." It is, at best, a dicey projection. And as *Reason's* Eric Boehm has noted, it may not even be that, partly because the legislation in its current form is structured via timing

gimmicks intended to induce further spending down the road or begin spending late in order to hide the long-term, on-paper cost of the plans.

But in some ways, this is all beside the point. It is a plan that, in its broadest form, calls for spending \$3.5 trillion. Even in the unlikely event that such a plan turns out to be truly fully paid for, *it would still spend \$3.5 trillion*. Those economic resources would be used to do some specific things, which in turn would reduce the ability to do other things. In other words, there would be costs and tradeoffs.

Changing the description is just a way of wishing away those costs, of thinking that it is possible to make them disappear by saying that they aren't real or shouldn't matter. Under Biden, this has been the way for Democrats, especially the self-identified progressives, who have implied that large minimum wage hikes might not cost jobs (they would) and that debt and deficit-driven federal spending constraints are effectively not real (they are). The intent in every case is to downplay concerns that any significant tradeoffs actually exist. After all, costs and tradeoffs are *absurd and unfair*. Perhaps. But they are also real. And lawmakers ignore them at our peril.