The Left Is Running Out Of Other People's Money To Spend

The Left doesn't have a way to pay for trillions of dollars in new federal spending.

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The clock is running out on the mammoth $3.5 trillion spending plan. Not only have moderate senators balked at what's included, but they're pushing back on how it will be paid for.

The far Left has revealed just how far they are willing to push our nation away from moderation, free enterprise, and capitalism. This situation has also exposed the reality that paying for all of the radical ideas and freebies will require pain shared by Americans from the top of the economic ladder all the way down.

President Biden's Broken Promise

For weeks, President Biden has promised that his sweeping $3.5 trillion plan was fully paid for and would not cost "zero dollars." A promise made, a promise already broken, and it will only get worse.

For weeks, congressional Democrats have scrambled to propose ways to pay for trillions of dollars of spending and so far they have come up short.

Liberal lawmakers have floated several payfors:

- House Democrats proposed raising the corporate rate to 26.5% from 21% and raising the top capital-gains tax rate to 25% from 20%.
- a 15% minimum tax on large companies' income hitting about 200 companies

- A wildly unpopular proposal to require banks to send to the IRS more information about customers' accounts with deposits or withdrawals of $10,000 up from $600. Our fellow, Gabriella Hoffman has been tracking this issue here and here.)

These proposals have been shot down by moderate Democratic lawmakers. They recognize that corporate tax increases will be borne by workers through lower wages and that many small businesses and middle-class families will face IRS scrutiny, not just the wealthy.

The latest tax scheme looks doomed as well–and rightly so

The latest proposal from Senate Democrats already drawing fire would impose an annual tax on unrealized capital gains on liquid assets held by the highest earners–any individual making over $100 million per year for three years in a row or who has $1 billion in collective assets. This is a shift from the current law that only taxes such gains when an investment is sold.

It's considered double taxation since most assets subject to capital taxes came from income that was likely taxed in other ways.

My colleague Kelsey Bolar provides a helpful Beanie Baby analogy in the Bright email this morning that explains why taxing unrealized capital gains is unfair:

Imagine you bought a $5 Beanie Baby and a year later, that Beanie Baby was worth $100. Congrats! That $95 increase is called an "unrealized gain," because you don't actually have the $95 until—and unless—you decide to sell. In the meantime, your Beanie Baby's value could go up, down, or crash to $0. For wealthy Americans, this is where much of their worth is found—in the ups and downs of their investments in stocks and bonds. Often, they make massive "unrealized gains" through their investments, but they don't actually realize that money unless—and until—they sell.

Only when they sell is that money taxed. Until then, their gains are subject to whatever happens in the economy—inflation, stock market crashes, companies going bankrupt, people not caring about Beanie Babies anymore…it's a gamble.

But now, Democrats are proposing to blow up the system by creating a "billionaires tax," which would tax unrealized capital gains in order to fund their social spending projects.

Only 700 Americans are supposed to bear this tax. Think Jeff Bezos, Mark Zuckerberg, etc. However, this tax is unlikely to work as they have armies of smart people working for them who will figure out legal ways to avoid this taxation.

Even European countries have steered clear of taxing capital gains as Chris Edwards at the Cato Institute explained:

The Democrats are obsessed with raising taxes on capital. They've proposed raising the top capital gains tax rate, even though our federal-state rate of 29 percent is already higher than the 19.5 percent average in Europe. They've proposed raising the corporate tax rate,

even though our federal-state rate of 27 percent is already higher than the 19 percent average in Europe. And some Democrats want to impose an annual wealth tax, even though nearly all European countries have eliminated those harmful levies.

Many high-income countries in Europe and elsewhere have heavier overall tax burdens than we do, but they make up the difference with high taxes on consumption, not capital. These countries recognize that taxes on consumption, such as value-added taxes (VATs), are less damaging than taxes on capital.

The Left is unlikely to push for consumption taxes though because consumers will feel it on top of rising inflation.

Bottom Line

The Left doesn't have the payfors for trillions of dollars in new federal spending. They are hiding what's in the plan and pretending that we can afford it. We can't.

Furthermore, as Americans understand how it will make life more expensive, they oppose it. High inflation–a tax on everyone that the most vulnerable are least able to afford–is eroding our paychecks. This spending plan will drive inflation even higher.

Trillions of dollars must be paid for and unfortunately, if this passes, we will all be on the hook one way or another.