White House Budget Proposal Will Fuel Inflation

March 29, 2022 - If the economy is currently a dumpster fire, then the latest budget proposal from Joe Biden is kerosene to be poured on it. If adopted by congress, the proposal would only make inflation worse for the average consumer, and would likely chase jobs right out of the United States.

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One of the worst features of Biden's proposal is an increase in the corporate tax rate from 21% to 28%. As the saying goes, corporations don't pay taxes. The consumers who purchase their products do. When corporate tax rates are increased, two things happen. First, corporations pass those tax increases on in the form of price increases. And second, they look for ways to cut costs.

When companies start looking at cost cutting, it is consumers and job seekers that lose out. Often referred to as "shrinkflation," consumers often notice this in the food they purchase. That's why a pint of ice cream is now often less than a pint in size. But it isn't just food that this impacts. Just about all packaged goods are subject to shrinkflation.

Jobseekers also lose out with corporate tax increases. That's because when corporations reduce costs, they often offshore jobs. In many cases, they'll contract them out. In others, they'll open overseas facilities using subsidiaries that may not be subject to US taxes. Either way, American's looking for jobs will find them harder to come by.

Another portion of Biden's proposal is a wealth tax. Specifically, he wants to levy a 20% tax on families worth more than $100 million. Regardless of how you feel about this, the structure he is proposing is quite dangerous. Part of the tax would be levied against unrealized gains. For instance, if you have a family that owns a manufacturing plant that they paid $1 million for twenty years ago, and that plant is now worth $10 million, Biden wants to tax them on the $9 million difference even if they have no intention of selling the plant.

If you were a member of that family, what would you do? There are some simple answers to that. If you didn't have the money on hand to pay that tax, then you could sell the plant, pay your taxes, pocket the rest of the money and go out of business. Or you could sell the plant, pay your taxes and then contract the manufacturing out... probably overseas... and not have to worry about any future taxes on unrealized gains. Either way, American jobs are the losers.

Taxing unrealized gains is something that the United States has never done. And it is a real danger for economic growth.

If the congress was to adopt this proposal, no investor in their right mind would be looking to build assets or manufacturing facilities in the United States.

Biden's proposal appears to come from a White House that is completely uneducated on the topic of economics. It's a job killer and inflation incubator, and we've only covered a small portion of what is actually in it. It doesn't deserve any serious consideration by congress, but that doesn't mean that it won't pass. And that's frightening.
by Jim Malmberg
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