The Masters of Misdirection

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If you haven't noticed, Congress and the President are pushing ahead with a plan to raise taxes especially on high wage earners who already pay the bulk of income taxes. Plans to raise income tax rates will push many high earners into the 50%+ tax bracket when state and local taxes are taken into consideration. Many politicians are in favor of imposing a wealth tax on the richest of the rich, but that plan seems to have fallen on deaf ears. The current focus is to tax those individuals who want to become rich by not allowing them to keep more of what they earn.

The tax plan would raise money to pay for trillion-dollar spending on an array of infrastructure and social programs that will provide broad support for individuals who are not benefitting from current growth in the U.S. economy. This plan also includes increased entitlement spending. Such an increase in fiscal stimulus should continue to have a positive effect on the economy in the near term but may also nudge inflation higher as rising demand for labor could push wages higher and lead to higher prices for goods and services. Conservatives point to the long-term detrimental effects on the budget deficit but, so far, we favor the positive impact of those deficits.

Well, that is the traditional narrative on the outlook for the U.S. economy for the next few years—even if the full measure of fiscal stimulus does not make it to the president's desk. While the recent data on inflation at a 5% rate has the media writing about the threat to future economic growth, they are missing some of the positive data that provide us with a different perspective on what is happening in the United States.

First, the WSJ reported that federal tax revenues have risen 18% so far this year—a favorable outcome of the government's spending on Covid. The surge in the stock market and rising wages are producing higher tax payments. Same story for record corporate profits. Businesses are paying more taxes that are flowing through to federal coffers. Once the government embarks on a massive spending program—in this case in response to the Covid pandemic—those spending dollars don't just disappear, they continue to work their way through the economy for years to come. This phenomenon is the key to resolving future deficits. Growth, not tax rate increases, will resolve our economic problems.

State and local governments will continue to benefit from this resurgence as well. Note that for years the real estate market had been a negative for state and local tax revenues. The boom in real estate must be a major contributor to state and local income as real estate taxes are likely to move higher with rising prices. States and municipalities are still collecting the distribution of Covid funds that were allocated from the federal treasury but not yet spent. Keep your eyes on announcements about unexpected gains in state revenues due to these circumstances.

Lastly, we have not heard anyone thank the federal government for picking up the whole tab for handling the pandemic—from the cost of vaccinations to hospital stays and medicines required to keep people from dying. Don't believe those naysayers who forecast gloom and doom for the U.S. economy.

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