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OPINION | COMMENTARY

# *Biden’s Public Option Would Mean Massive Tax Hikes*

The middle class will eventually be taxed to pay for a government run health-insurance plan.

By Lanhee J. Chen and Daniel L. Heil

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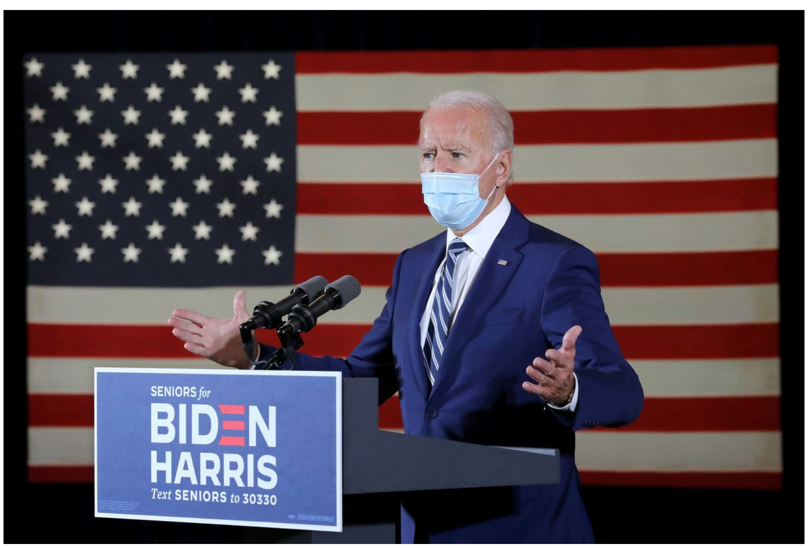


Joe Biden campaigns in Pembroke Pines, Fla., Oct. 13.

PHOTO: CHIP SOMODEVILLA/GETTY IMAGES

Joe Biden has promised that no families with incomes under $400,000 will see tax increases if he is elected president. But that’s a promise he won’t be able to keep if he gets his way and Congress creates a government-run health insurance plan—a public option.

Mr. Biden and other supporters of the public option argue it would be a relatively modest change to the nation's health-care system because, unlike single-payer proposals, it would add nothing to federal deficits. But once enrollees and health-care providers start applying political pressure to keep premiums low, taxpayers would be on the hook. Medicare's legislative history is filled with broken promises to restrain spending.

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If Congress follows its past behavior, the result will be a costly public option. With our co-author Tom Church, we estimate that a politically realistic public option would increase 10-year federal deficits by almost $800 billion. Over the long term, it would become the third-largest government program—accounting for one-eighth of future spending excluding interest on the debt. Keeping a public option deficit-neutral would likely require a broad-based tax increase that would add thousands of dollars to a typical middle-income family's tax bill. Without the tax hike, the public option alone would increase the federal debt by more than 30% of gross domestic product by 2050.

These costs couldn't come at a worse time. The federal debt has risen above 100% of GDP 10 years sooner than expected, and the Congressional Budget Office now projects debt to reach 195% by 2050. The higher debt will mean fewer economic opportunities for future generations. The CBO predicts that the economy will be about 5% smaller in 2050 than it would be if policy makers reduced the debt to 2019 levels. Further additions to the debt—such as another Covid relief package—would intensify these economic harms.

Avoiding these dire projections will force future policy makers to choose between spending cuts and tax increases. The math is grim. Even without any new spending programs, we estimate that Congress would need an across-the-board tax increase of 10.4% beginning in 2026 to return long-term debt projections to CBO's 2019 forecast. This tax increase would apply to all corporate, payroll and personal income-tax rates, and it would come on top of the scheduled tax increases from the expiration of the Tax Cuts and Jobs Act of 2017. Returning to the 2019 forecast is hardly ambitious; debt would still approach 150% of GDP by 2050.

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Mr. Biden contends that tax hikes on the rich will be sufficient to pay for his new programs. But the numbers don't add up. Even before accounting for his other spending proposals—such as increasing ObamaCare subsidies—a public option would require record high tax increases on corporations or high-income taxpayers. We estimate that to pay for the public option, corporate tax rates would have to rise from 21% today to 58% over the next 30 years. Alternatively, Congress could raise the top three marginal tax rates. But between financing the public option and keeping debt below 150% of GDP, the top rate would eventually exceed 60%—higher than at any point in the past 40 years.

Instead, lawmakers might consider raising personal income taxes for all taxpayers. An across-the-board tax hike would increase all personal income-tax rates more than 30% by 2050. Middle-income families would see their taxes rise by $2,000 a year in inflation-adjusted dollars. Middle-income taxpayers would pay a marginal federal income tax rate of 32.6%, and the top rate would need to be above 50%—levels not seen since 1981.

Finally, policy makers could opt for a payroll tax increase to finance the public option. This would keep top rates below 50% but would mean significantly higher taxes for middle-income families. Including the 10.4% broad-based tax, the hospital insurance payroll tax would rise by 180%, pushing the combined employee and employer tax to 8.1%. Taxes for the typical middle-income family would rise by an inflation-adjusted $3,900 to pay for the public option and keep debt below 150% of GDP in 2050.

While any of these tax hikes would be substantial, they likely understate the actual tax increases needed to fund the public option. To be conservative, we didn't adjust for how higher tax rates affect taxable income or economic behavior. These effects would be particularly large when raising corporate tax rates or top marginal tax rates. Raising taxes on these narrow bases would lead to large economic distortions and drastic tax avoidance.

Still, while illustrative, the tax increase scenarios should serve as a warning. Campaign promises for large new spending programs and no new middle-class taxes are easy to make, but the bill will come due at some point. And the burden will fall on future taxpayers who will be forced to pay for the broken promises of today's politicians.

*Messrs. Chen and Heil are fellows at the Hoover Institution.*

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