The Daily Dish

Economics and Elizabeth Warren

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Eakinomics: Economics and Elizabeth Warren

Senator and presidential hopeful Elizabeth Warren released last week the financing half of her Medicare for All plan. She offered a low-ball estimate of the cost of her proposal — a bit above $20 trillion over 10 years — and listed $22.8 trillion in new revenues and reduced spending to finance it. Still, it is very unlikely that it all adds up in the end.

First, some of the revenues require, well, magic. She argues that the "tax gap" (the difference between what the government is in principle owed and what it collects in taxes) can be closed by one-third and, thus, raise $2.3 trillion. She is essentially arguing that right now Congress and the president are willfully foregoing over $2 trillion in revenues. Really? If the tax gap could be closed by one-third, it would already have been closed by one-third.

Some other sources don't require magic, but probably rely on believing in myths. It is hard for me, at least, to believe that there will be no need for U.S. forces overseas over the next decade (the source of $0.8 trillion in savings) or that comprehensive immigration reform (the source of another $0.4 trillion) will sail through Congress or that there will be a U-turn on the bipartisan agreement that the United States needed to move toward a territorial corporation income tax (her worldwide 35 percent minimum tax with no deferral raises $1.7 trillion). Counting these as pay-fors is pretty iffy.

The remainder of the pay-fors is $11.5 trillion in taxes on corporations and $5 trillion on the "top 1 percent." It strikes me as unlikely that the full revenue from these taxes will transpire as well, but that is a secondary complaint compared to her assertion that this structure means that the middle class will not have to pay for Medicare for All. That is just flat wrong.

Corporations don't pay taxes. Yes, they remit payments to the U.S. Treasury, but where do they get the money to do so? Answer: by paying workers less, investors less, or charging consumers more — or some combination of these three. Firms don't pay taxes; people do. Which people will pay her taxes?

Let's start with the $8.8 trillion "Medicare Contribution" that is supposed to mimic the contributions employers currently make for employer-sponsored insurance (ESI). There is a large body of research literature that demonstrates, for example, that workers pay both the employee share of the Social Security payroll tax *and* the employer share of the payroll tax because wages are reduced to offset the employers' tax cost. That's a problem because if employers have to make a Medicare Contribution for every employee, just like the payroll tax, they will turn around and reduce wages to offset that cost.

Workers — the middle class — will pay the $8.8 tax.

There is also significant research literature that demonstrates that for every additional dollar of ESI provided to workers, wages fall by $1 to offset it and keep total compensation unchanged. Senator Warren is leaning on this

finding to argue that getting rid of private insurance will cause wages to rise and generate another $1.2 trillion in taxes on take-home pay. Oops. As just noted, wages will not rise because the new Medicare Contribution will mimic the ESI and keep wages exactly where they are.

As an aside, the Warren proposal claims that if the Medicare contribution falls short of the $8.8 trillion, then the shortfall will be made up with a "Supplemental Employer Medicare Contribution" requirement for "big companies with extremely high executive compensation and stock buyback rates." That's completely unrelated to employment decisions and will have to come out of returns to shareholders or in the form of higher prices. Thank goodness that the middle class doesn't have any union pensions, teacher pensions, firefighter pensions, police pensions — or any other kind of direct or indirect holding of company ownership — and does not buy any products produced by large U.S. firms (sorry Walmart, Target, Amazon…). Because if they did, Senator Warren would have misled them about who pays the Supplemental Employer Medicare Contribution.

A similar line of reasoning applies to the taxes on the top 1 percent. Consider the Warren Wealth Tax (WWT), which tops out at 6 percent annually. A 6 percent tax means that if the wealth generates an annual return of 6 percent, there is an effective tax rate of 100 percent on the return to capital. Even if you manage to get it up to 12 percent, the effective tax rate is 50 percent. That's steep, and it doesn't even factor in the individual or corporation income taxes.

Worse, the wealth tax being is touted as the solution to the fact that a large fraction of the nation's investible capital is owned by the top 1 percent. That means that the bulk of the investible capital will face potentially draconian annual tax rates. The economic impact will depend on the amount of economic activity that is taxed — not the number of people — so one would expect the usual array of responses to high taxes on capital — capital moving overseas, reduced saving and investment, and so forth. Again, the research literature is quite clear that reduced quantity and quality of intellectual property and physical capital will lower worker productivity, which will inevitably be reflected on reduced wages for workers. (The same chain of logic applies to the higher taxes on capital gains.)

The middle class will not be immune from the economic fallout of taxing the 1 percent.

There is no question that the middle class would pay significantly for Medicare for All. The only question is whether proponents are honest about it.