

# Osher Lifelong Learning Institute, Fall 2023

## Contemporary Economic Policy

American University  
Fall, 2023

Jon Haveman, Ph.D.  
National Economic Education Delegation



NATIONAL ECONOMIC  
EDUCATION DELEGATION

1

1

## National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are nonpartisan and intended to reflect the consensus of the economics profession.



NATIONAL ECONOMIC  
EDUCATION DELEGATION

2

2

## Who Are We?

- **Honorary Board: 54 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
  - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
  - o Akerlof, Smith, Maskin

- **Delegates: 652+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 48 Ph.D. Economists**

- Aid in slide deck development

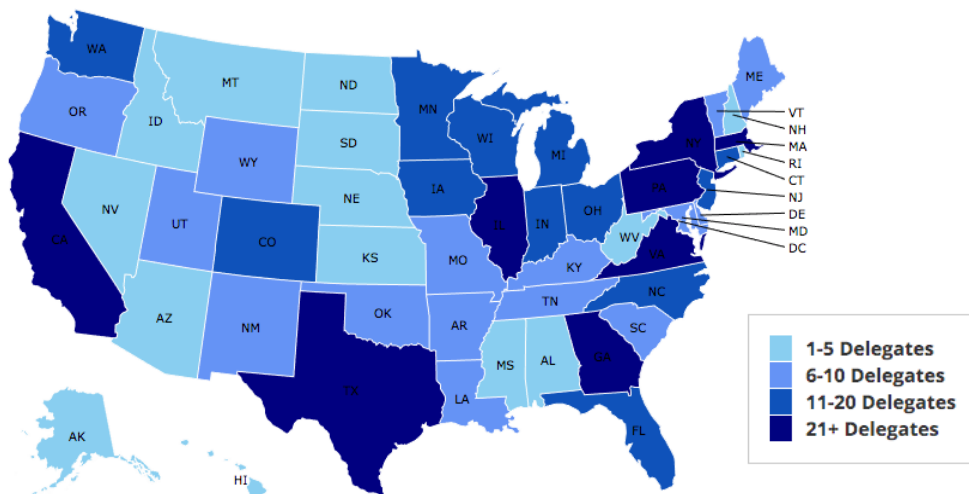


NATIONAL ECONOMIC  
EDUCATION DELEGATION

3

3

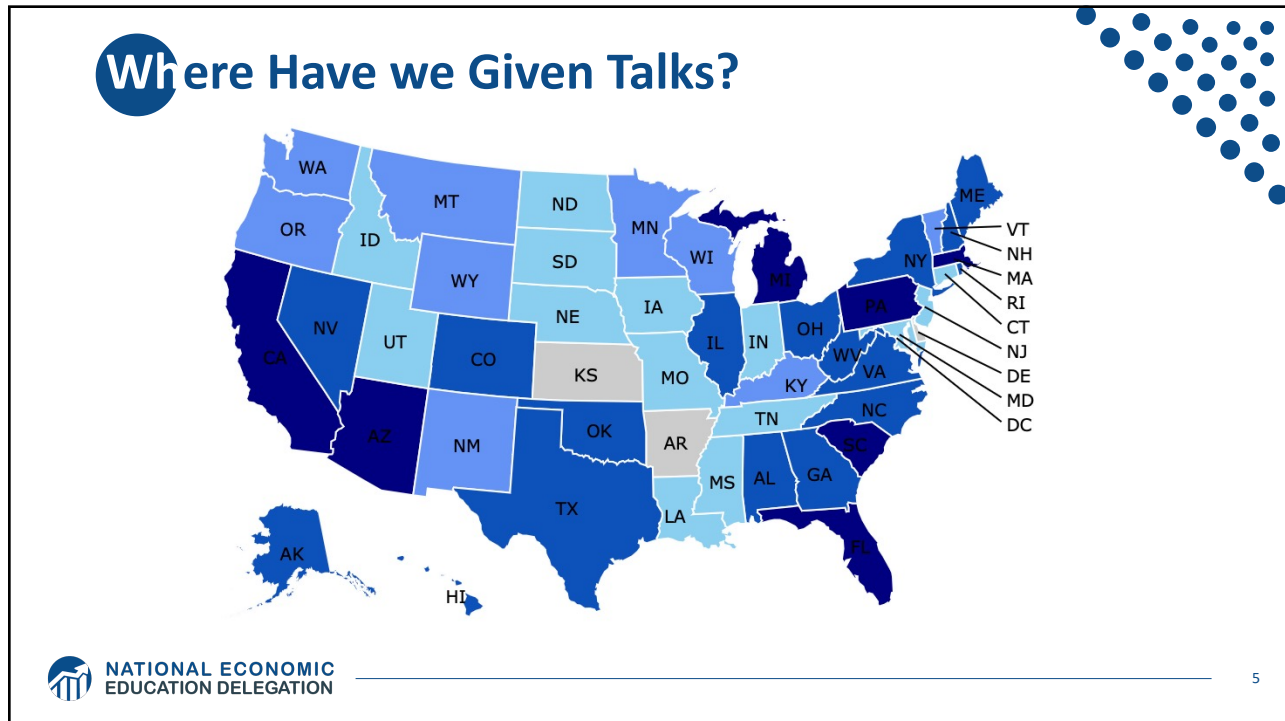
## Where Are We?



NATIONAL ECONOMIC  
EDUCATION DELEGATION

4

4



5

## Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

NATIONAL ECONOMIC EDUCATION DELEGATION

6

6

# Course Outline

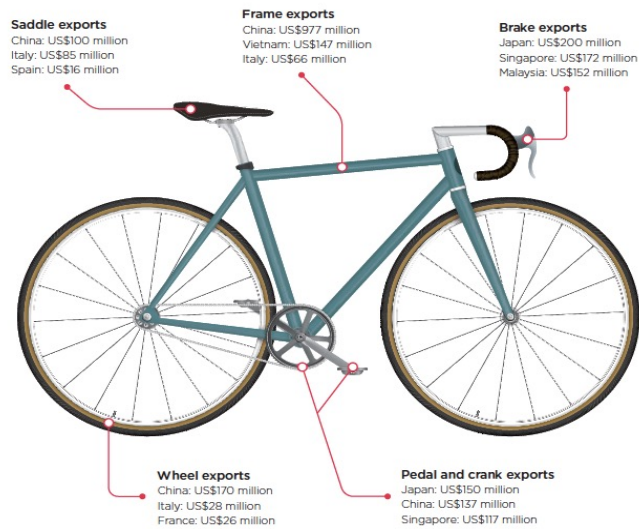
## • Contemporary Economic Policy

- Week 1 (9/28): US Federal Budget (Jon Haveman, NEED)
- Week 2 (10/5): Trade and Globalization (Arkadiusz Mironko, Indiana Univ. East)
- Week 3 (10/12): International Institutions (Alan Deardorff, U of Michigan)
- Week 4 (10/19): Economic Update (Geoffrey Woglom, Amherst College)
- Week 5 (10/26): Monetary Policy (Geoffrey Woglom)
- Week 6 (11/02): Intro to Financial Economics (Geoffrey Woglom)

7

# Trade: Bicycle Supply Chain

Figure 1.1 Where do bicycles come from?



Source: World Development Report 2020

8

# International Institutions: Alan Deardorff October 12, 2023



NATIONAL ECONOMIC  
EDUCATION DELEGATION

## CPI vs. PCE: Differences

CPI tends to be higher (Mar):

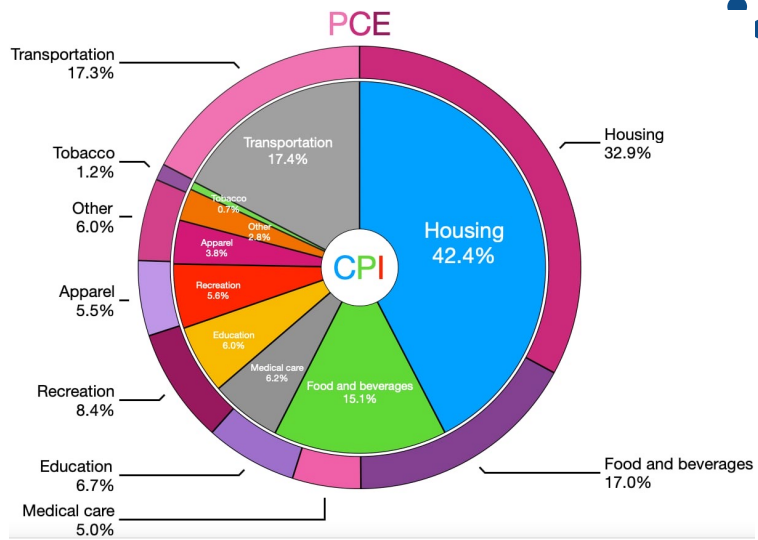
CPI, 4.9%

Core CPI, 5.6%

PCE, 4.2%

Core PCE, 4.6%.

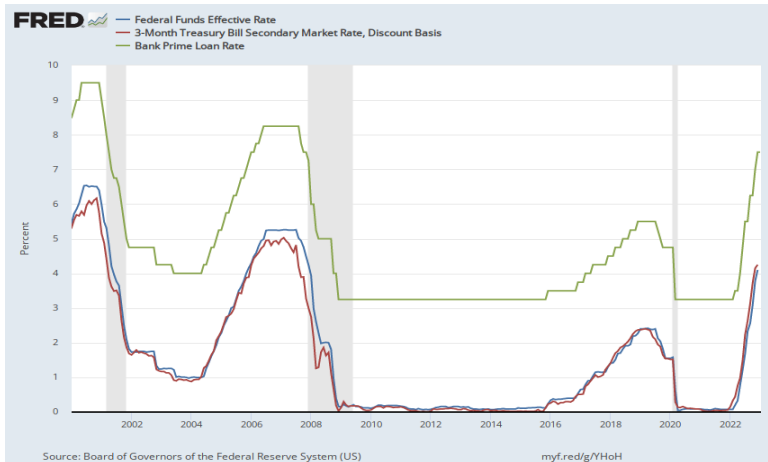
Typically more like  
0.5 % pts.



NATIONAL ECONOMIC  
EDUCATION DELEGATION

[https://en.wikipedia.org/wiki/Personal\\_consumption\\_expenditures\\_price\\_index#](https://en.wikipedia.org/wiki/Personal_consumption_expenditures_price_index#)

## The Fed and Short-term Interest Rates



Blue is the fed funds rate.

Red is the rate on 3 month Treasuries.

Green is the prime bank lending rate



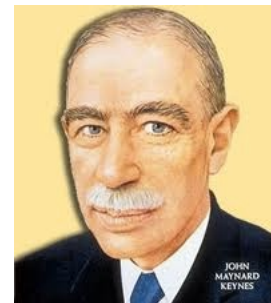
NATIONAL ECONOMIC  
EDUCATION DELEGATION

11

11

## Financial Economics

- **Pessimist: John Maynard Keynes**
- **Asset prices reflect investor psychology and bear little relation to fundamental value**
- **Beauty Contest: Pick the girl that other people think is the prettiest**
- **“Animal Spirits” cause irrational and inefficient swings in investment and cause macroeconomic instability**



NATIONAL ECONOMIC  
EDUCATION DELEGATION

12

## Submitting Questions

- **Please submit questions of clarification in the chat.**
  - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website shortly after the talk ([https://NEEDEcon.org/delivered\\_presentations.php](https://NEEDEcon.org/delivered_presentations.php))**



13

## The US Federal Budget

*OLLI* – American University  
September 28, 2023

Jon Haveman, Ph.D.  
NEED



14

## Credits and Disclaimer

- **This slide deck was authored by:**

- Jon Haveman, NEED
- Geoffrey Woglom

- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



15

## Outline

- **Budget Overview**
- **Government Spending**
- **Tax Expenditures**
- **Government Revenues**
- **Government Shutdown**



16






# Budget Overview

NATIONAL ECONOMIC EDUCATION DELEGATION

17

17



## What Does the U.S. Gov't Budget Look Like?

### Fiscal Year 2022 Budget Summary

Revenue	Billions	Expenditures	Billions
Income Taxes	\$2,632	Mandatory	\$4,010*
Payroll Taxes	\$1,484	Discretionary	\$1,787*
Corporate Taxes	\$425	Interest	\$475
Other	\$356		
<b>Total</b>	<b>\$4,896 19.8%</b>	<b>Total</b>	<b>\$6,272 25.4%</b>

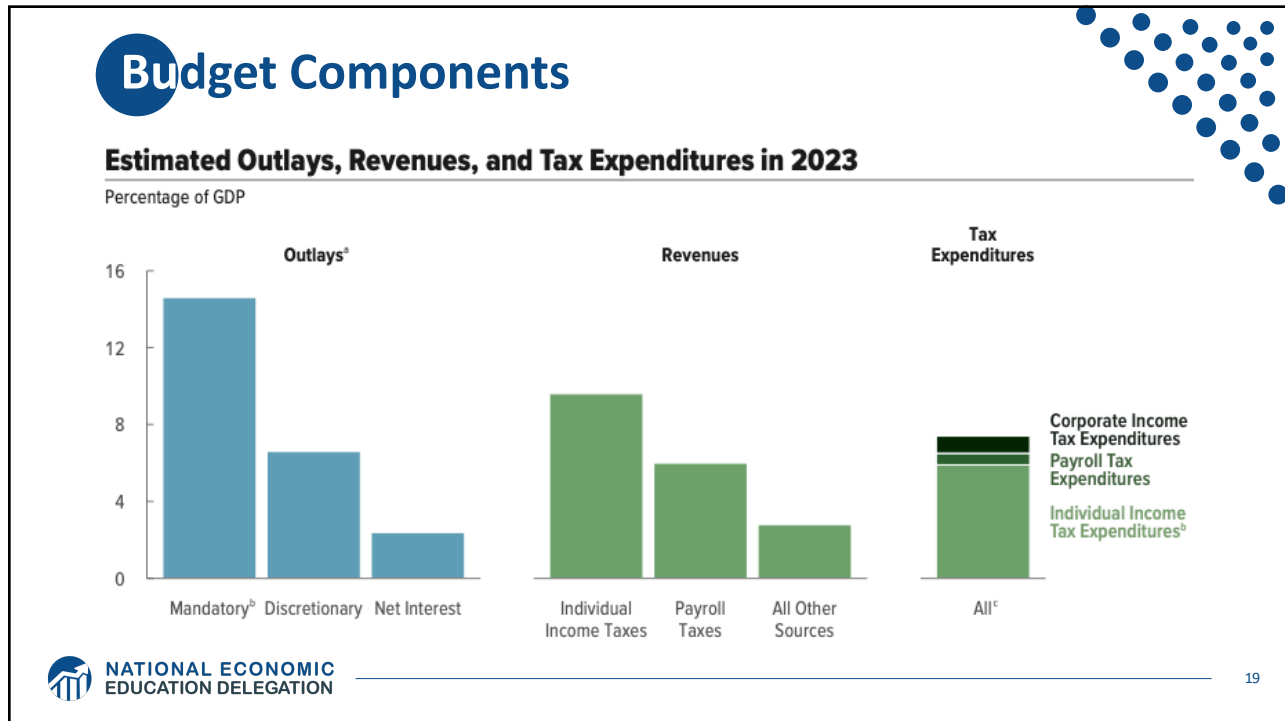
**Budget Deficit: \$1,375 Billion 5.5%**

NATIONAL ECONOMIC EDUCATION DELEGATION

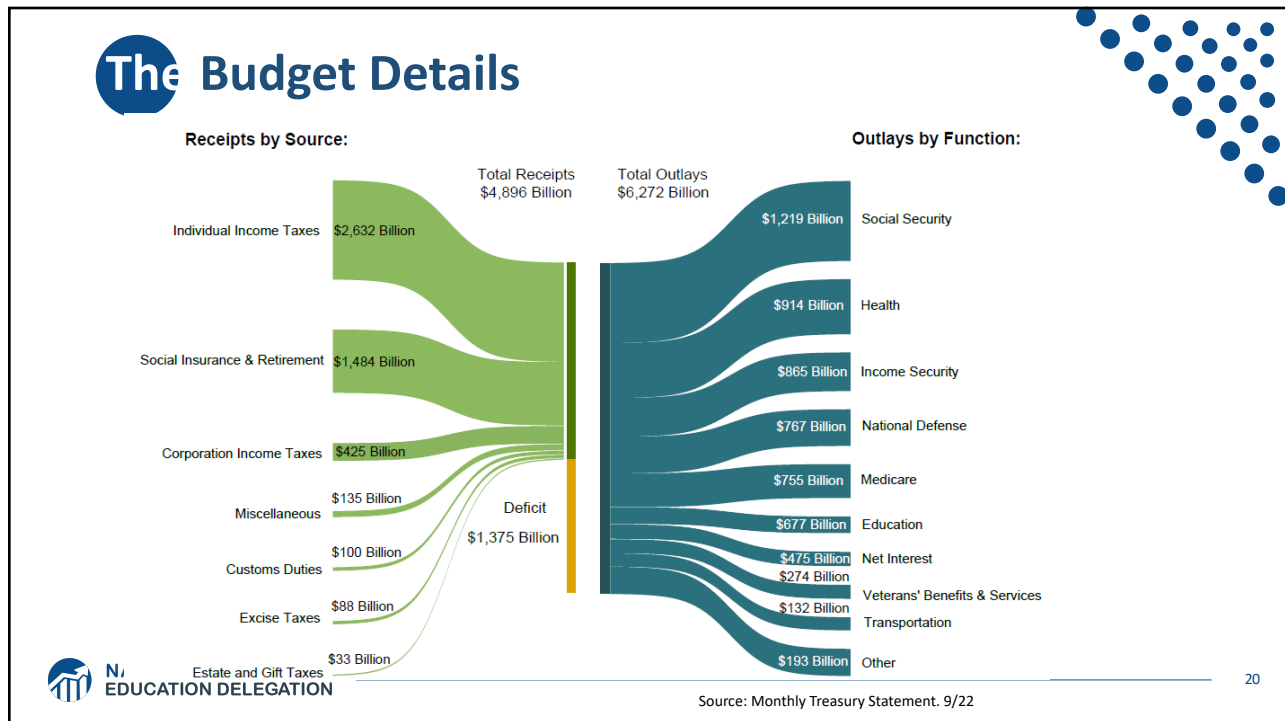
18

Source: Monthly Treasury Statement. 9/22 . \*Estimates based on OMB Forecasted Breakdown

18



19

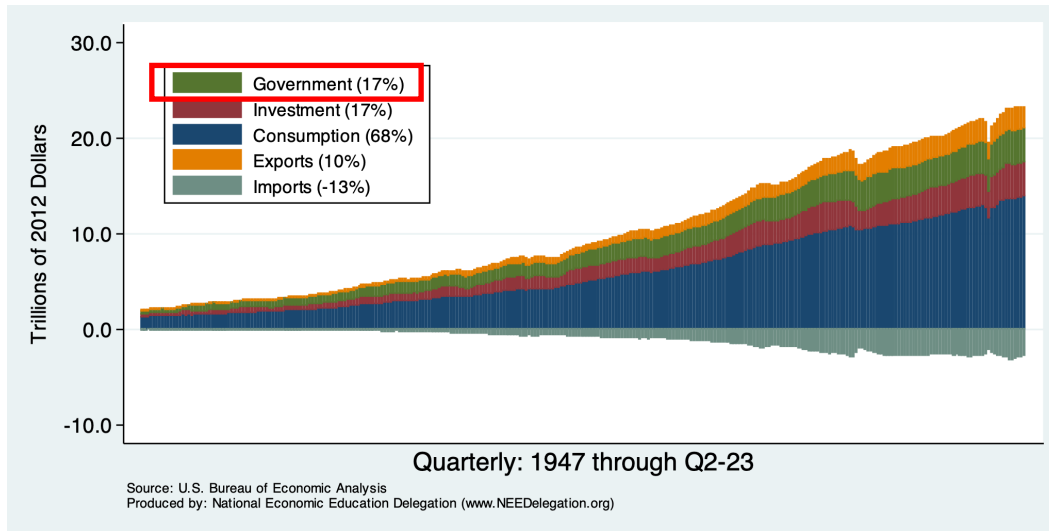


20

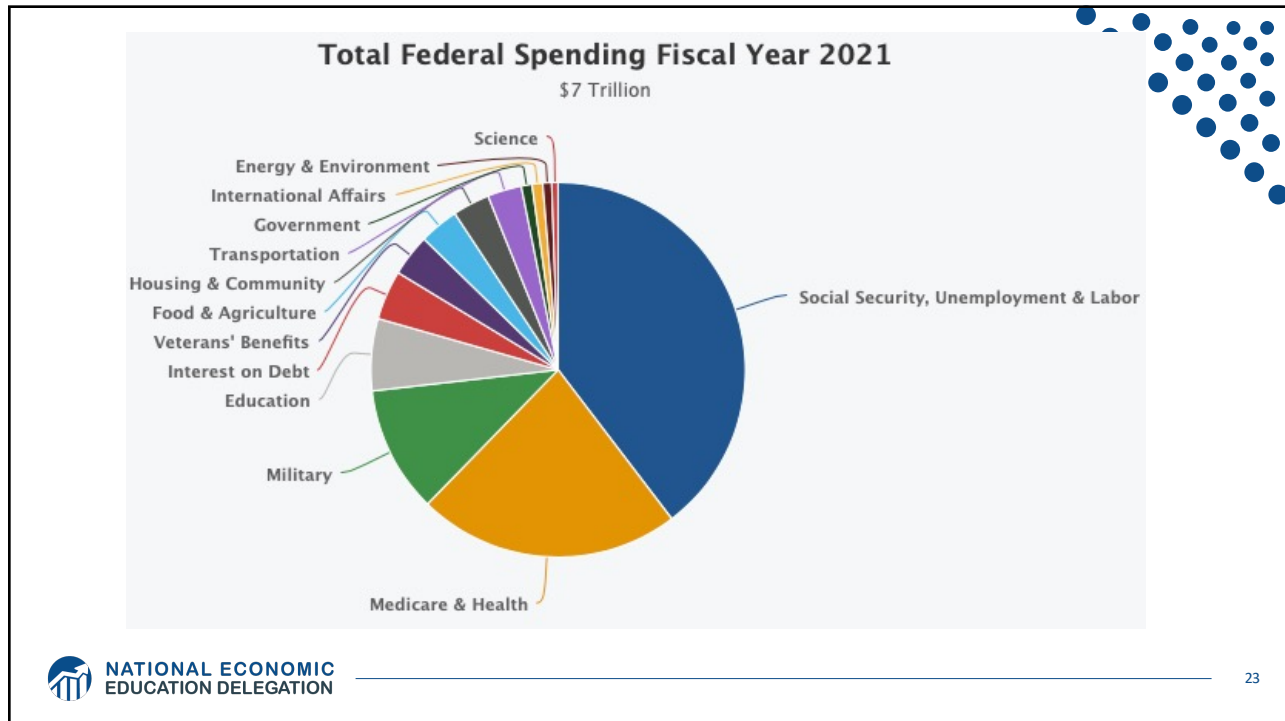
# U.S. Government Spending

21

## Gov't Expenditures and the US Economy



22



23

## An Important Distinction:

- **Mandatory vs. Discretionary Spending:**
  - **Discretionary** Spending requires annual appropriations, e.g., most of Defense.
  - **Mandatory** Spending is ongoing authorization to spend mostly on “entitlements:” such as Social Security and Medicare.
- **Budget for 2022:**
  - Mandatory + Net Interest was 74%;
  - Discretionary 26%.

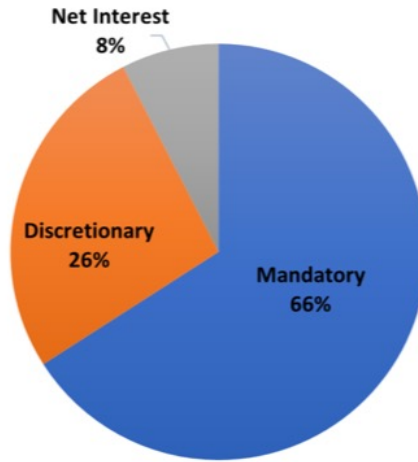
**NATIONAL ECONOMIC EDUCATION DELEGATION**

Source: Hutchins Center

24

# On What is the Money Spent? Complicated

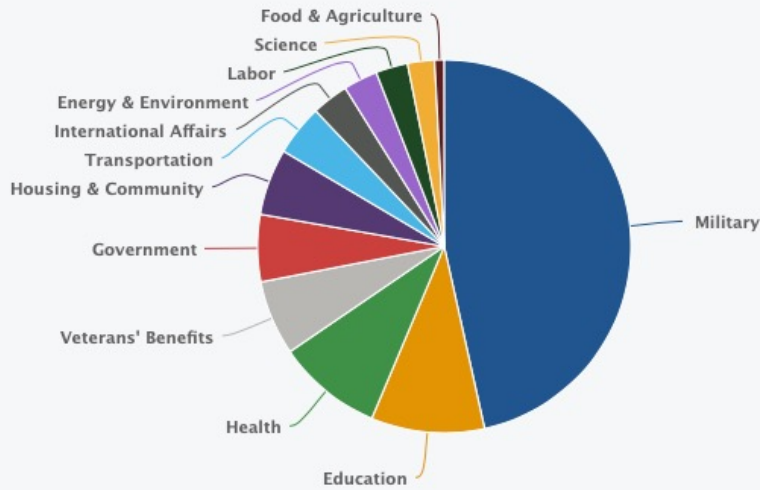
## Federal Spending Breakdown, 2022



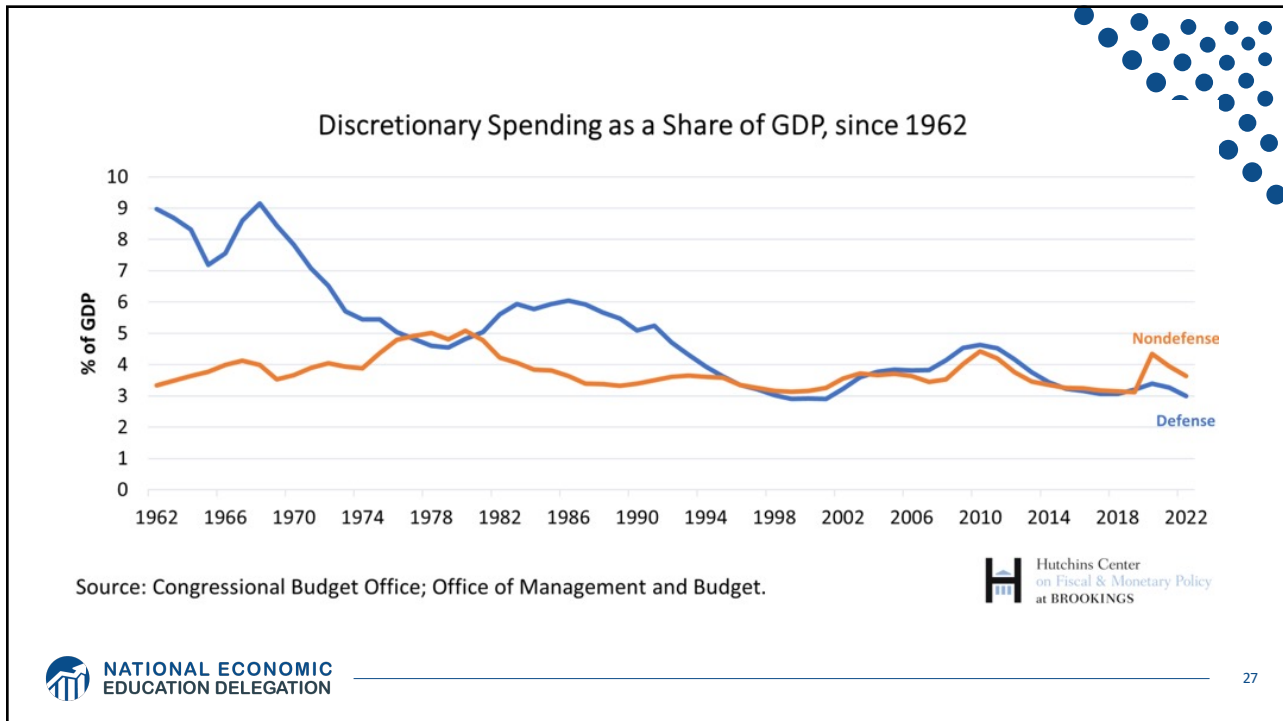
25

## Federal Discretionary Spending Fiscal Year 2021

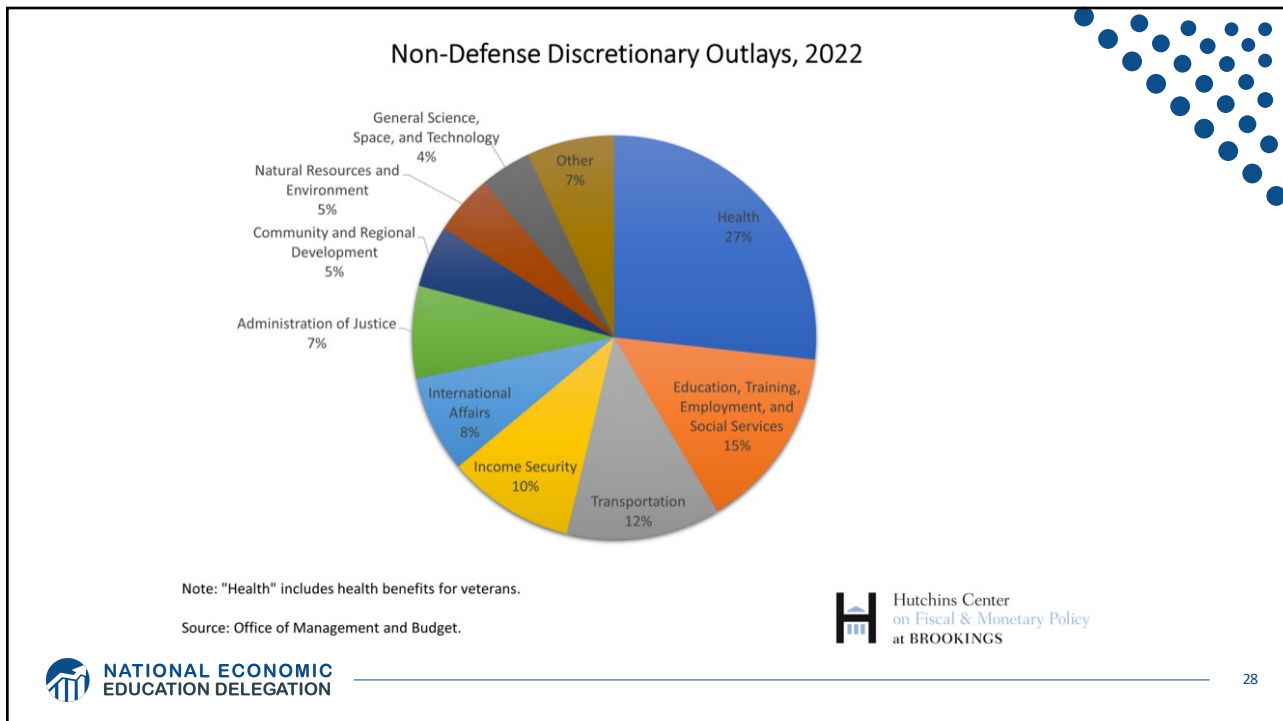
\$1.6 Trillion



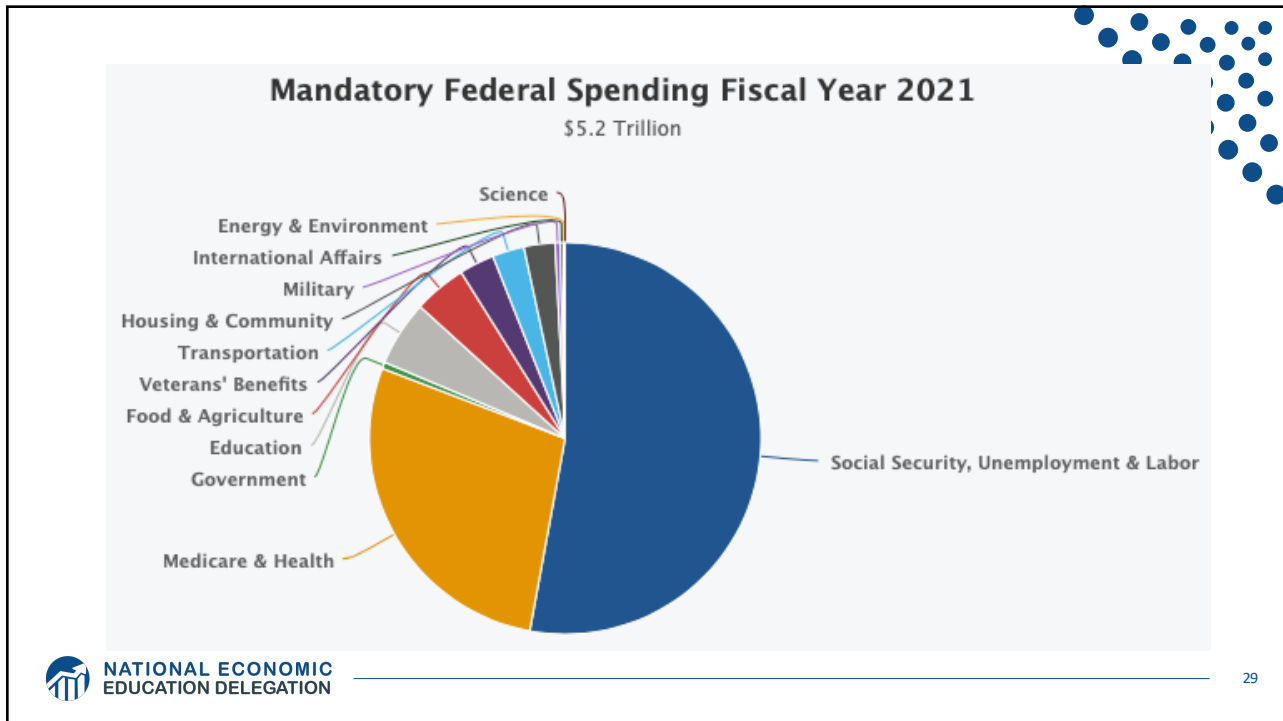
26



27




28



29

## Mandatory Spending: Social Security (24%)



- **Retirement**
  - Covers 96% of US workers.
  - Retirement age is increasing from 65-67.
- **Survivors**
  - A worker's spouse and dependents may be eligible for survivors' benefits if the worker dies.
- **Disability**
  - A medical condition expected to last at least one year or to be fatal.

**NATIONAL ECONOMIC EDUCATION DELEGATION**

30

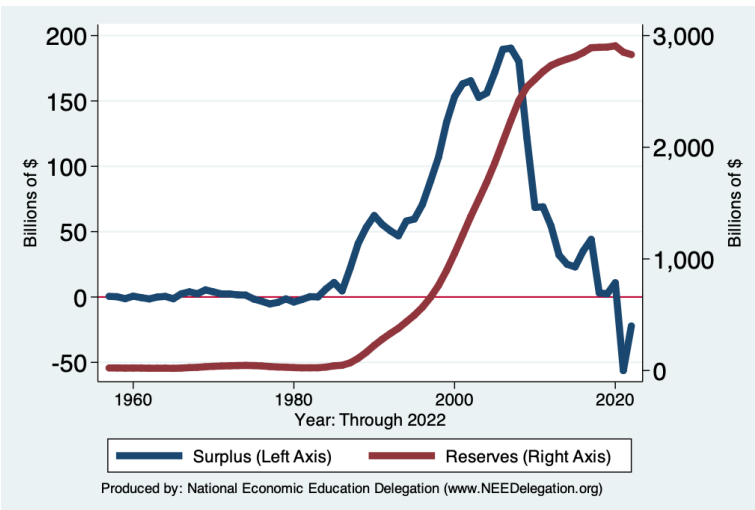
## Where Do Social Security Funds Come From?

- **Payroll taxes**
  - Tax rates:
    - Employee: 6.2%
    - Employer: 6.2%
    - Self Employed: 12.4%
  - Cap in 2023: \$160,200
- **Taxes on OASDI benefits**
  - Not all benefits are taxed.
- **Interest earnings**

**Key Question:  
Who pays?**

31

## Social Security Trust Fund



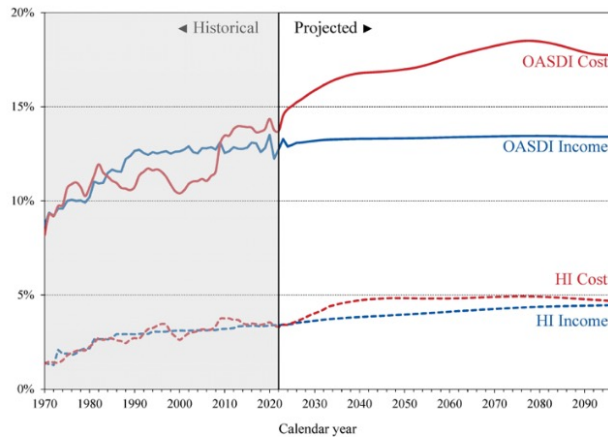
- **Spending in 2022**
  - OASI: \$1,097 billion
  - DI: \$147 billion
- **Income in 2022**
  - OASI: \$1,057
  - DI: \$165
- **Surplus in 2022**
  - OASI: \$-41
  - DI: \$19
- **Total Deficit: \$22 Billion**

32



# Deficits As Far As the Eye Can See

Chart A—OASDI and HI Income and Cost as Percentages of Their Respective Taxable Payrolls

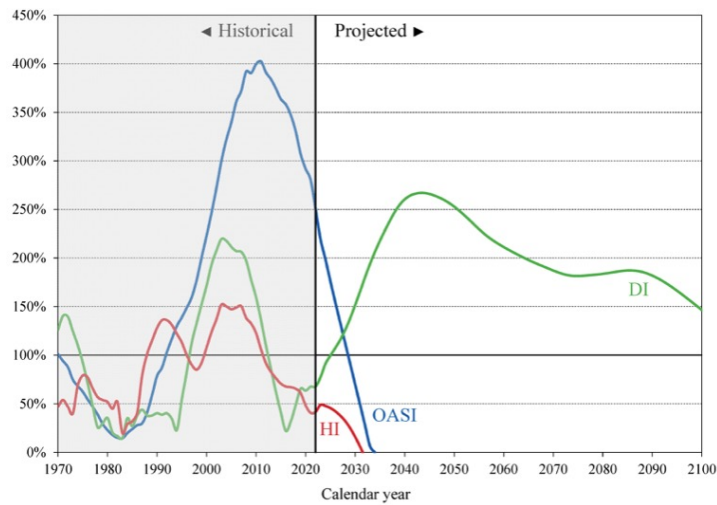


- **Trust Fund Solvency**
  - Annual deficits after 2019
  - Fund insolvent after 2036



SOURCE: 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table IV.B1

Chart D—OASI, DI and HI Trust Fund Ratios [Asset reserves as a percentage of annual cost]



**Table 7: KEY DATES FOR THE TRUST FUNDS**

	OASI	DI	OASDI	HI
First year cost exceeds income excluding interest <sup>a</sup>	2010	2044	2010	2025
First year cost exceeds total income including interest <sup>a</sup>	2021	<sup>b</sup>	2021	2025
<b>Year asset reserves are depleted</b>	2033	<sup>c</sup>	<sup>d</sup> 2034	<b>2031</b>

<sup>a</sup> Dates indicate the first year a condition is projected to occur and then persist each year through 2097.  
<sup>b</sup> Projected annual balances remain positive through 2097.  
<sup>c</sup> The trust fund asset reserves are not projected to become depleted during the 75-year period ending in 2097.  
<sup>d</sup> If the legally separate OASI and DI trust funds were combined, the hypothetical combined OASDI asset reserves would become depleted in this year.

35

## Options for Eliminating the Soc Sec Deficits

### Problem is 1-1.5% of GDP

- **Raise the retirement age.**
- **Increase the tax rate.**
  - 4 percentage pt. increase raises 0.6% of GDP.
- **Raise the amount of income subject to tax.**
  - Tax all wages raises 1.1% of GDP.
- **Reduce benefits.**
  - 21% cut in benefits by 2034 would be necessary.

36

## Mandatory Spending: Medicare (13%)

- **Part A: Hospital Insurance**
- **Part B: Physician, outpatient, home health, and other services.**
- **Part D: Subsidized access to pharmaceuticals.**
  
- **Part C: Medicare Advantage Plans – offered by private companies approved by Medicare.**
  - Medicare Advantage Plans may offer extra coverage, such as vision, hearing, dental, and/or health and wellness programs. But, you must receive referrals within network.



37

## Medicare Finances in 2021

- **Part A:**
  - Income in 2021: \$342 billion
  - Expenses in 2021: \$402 billion
  - **Deficit:** \$60 billion
  
- **Part B and Part D:**
  - Income in 2021: \$558 billion
  - Expenses in 2021: \$524 billion
  - Surplus: \$24 billion
  
- **Long term sustainability:**
  - Deficits began in 2016
  - Part A Trust Fund depleted by 2026.



38

## Where Do Medicare Funds Come From?

- **Payroll taxes**
  - Tax rates:
    - Employee: 1.45%
    - Employer: 1.45%
    - Self Employed: 2.9%
  - No Income Cap
- **Interest earnings**
- **General revenues**
- **Beneficiary premiums: Parts B & D**



## Mandatory Spending: Medicaid (10%)

- **Medicaid provides medical insurance for those whose income and resources are insufficient to pay for health care.**
- **It is a program with costs shared with the states.**
- **Amount spent in FY 2022: \$838 Billion**
  - Federal: 70% or \$589 Billion
  - States: 30% \$249 Billion
- **People served in 2022: 83 million (24% of Americans)**

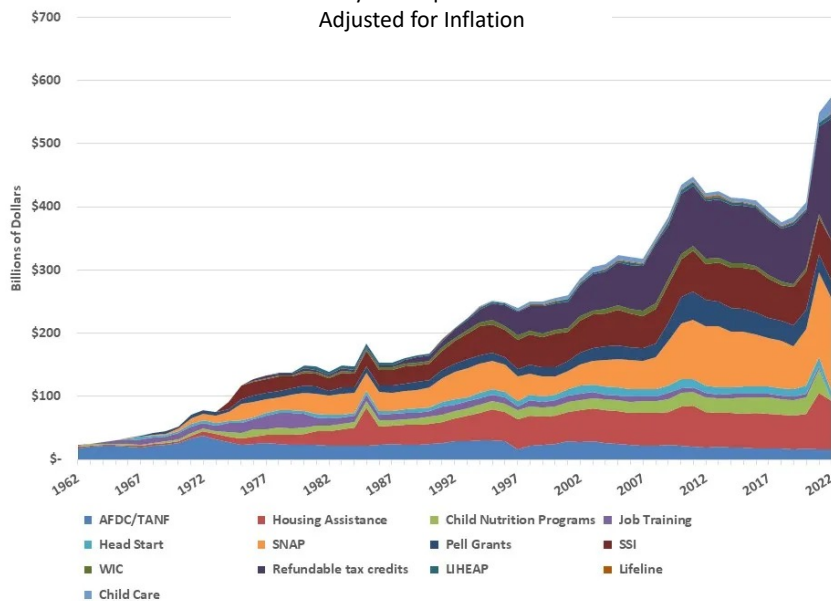


# Mandatory Spending: Income Security (10%)

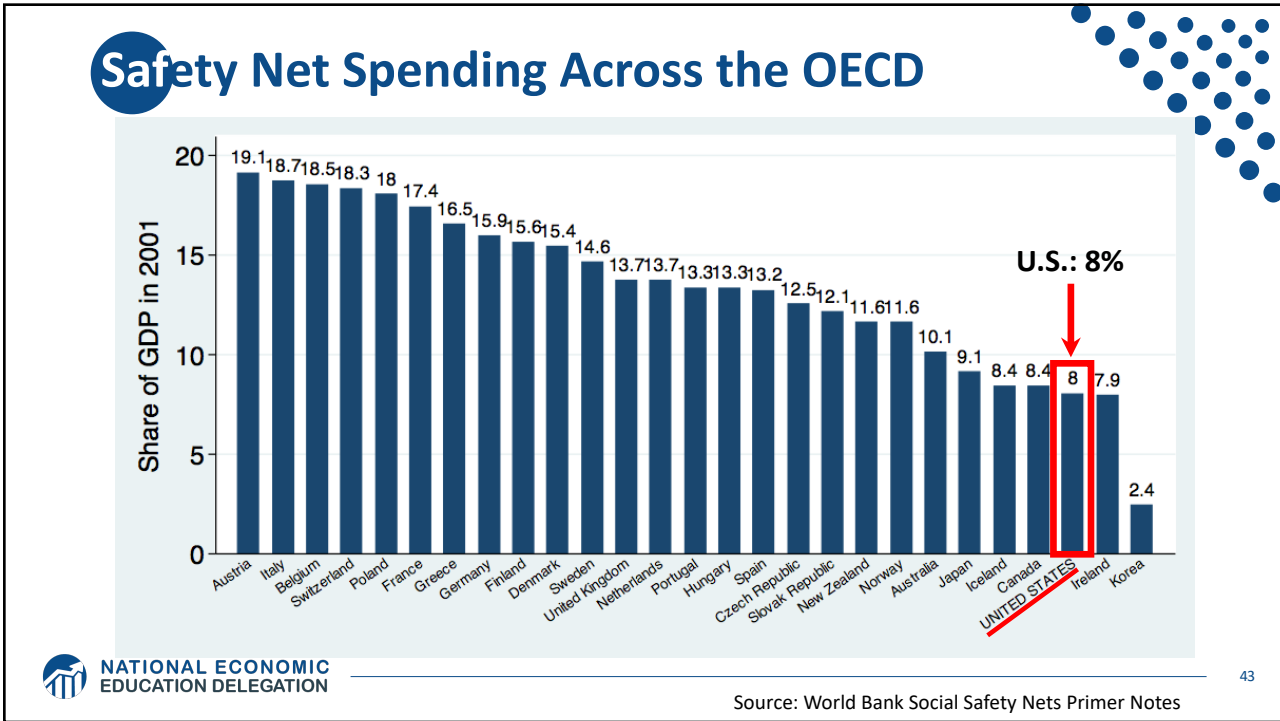
- EITC
- SNAP
- SSI
- TANF
- Housing
- WIC
- School Lunches
- Head Start

41

### Safety Net Expenditures Adjusted for Inflation



42



43

## Mandatory Spending: Interest

- Interest costs in 2022: \$399 Billion**

- 1.6% of GDP, or 7% of the Federal Budget
- Forecast to increase to \$1,323 Billion in 2052**

- 7.2% of GDP, or 24% of the Federal Budget

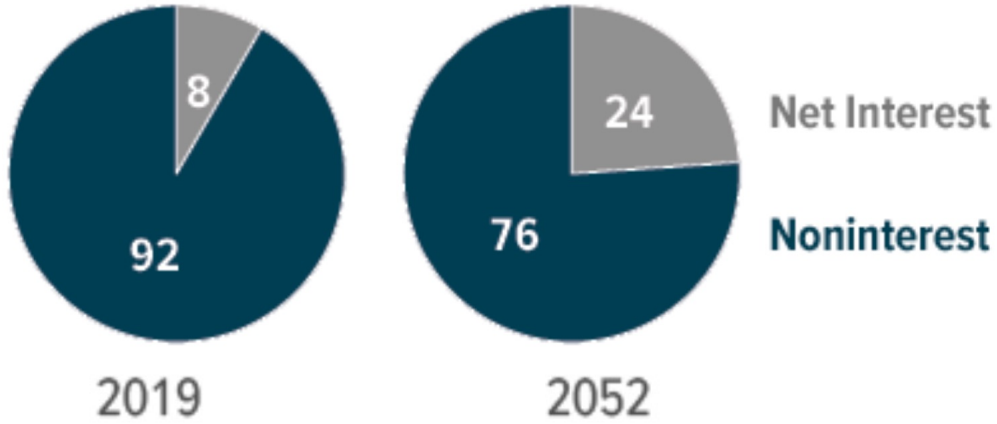
**NATIONAL ECONOMIC EDUCATION DELEGATION**

Source: CBO, July 2022 Long-term Budget Projections

44

## Interest Will Grow as a Share of the Deficit

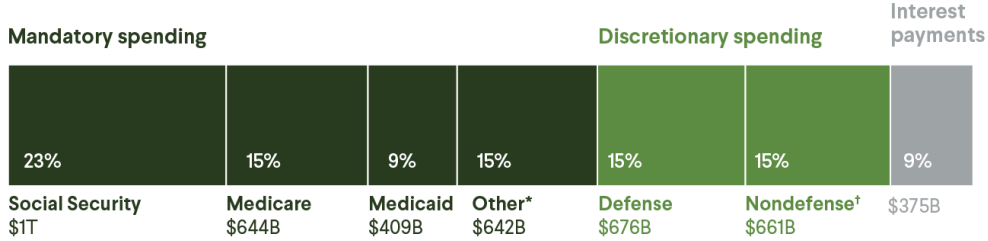
### Total Outlays



## Mandatory Spending: Other (13%)

- Food and agriculture
- Veterans' Benefits
- Transportation
- Other

### The 2019 U.S. Budget: Where Does Federal Spending Go?



\* Includes unemployment benefits, food and income support, anti-poverty tax credits, federal pensions, and crop insurance.

† Includes spending on education, transportation, health, housing, social services, veterans' benefits, and international affairs programs.

Note: Percentages do not add up to 100 due to rounding.

Source: Congressional Budget Office.

COUNCIL on FOREIGN RELATIONS



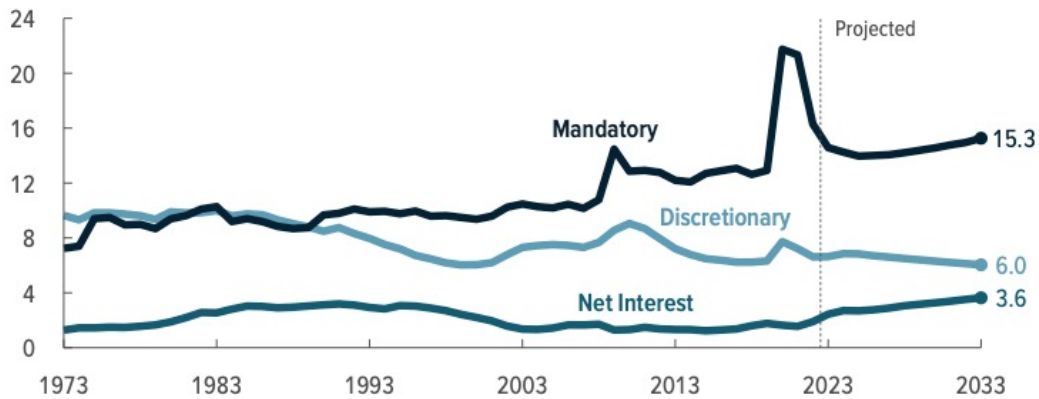
<https://www.cfr.org/backgrounder/national-debt-dilemma>

47

47

## Mandatory Spending Dominates Projections

**Outlays, by Category**  
Percentage of Gross Domestic Product

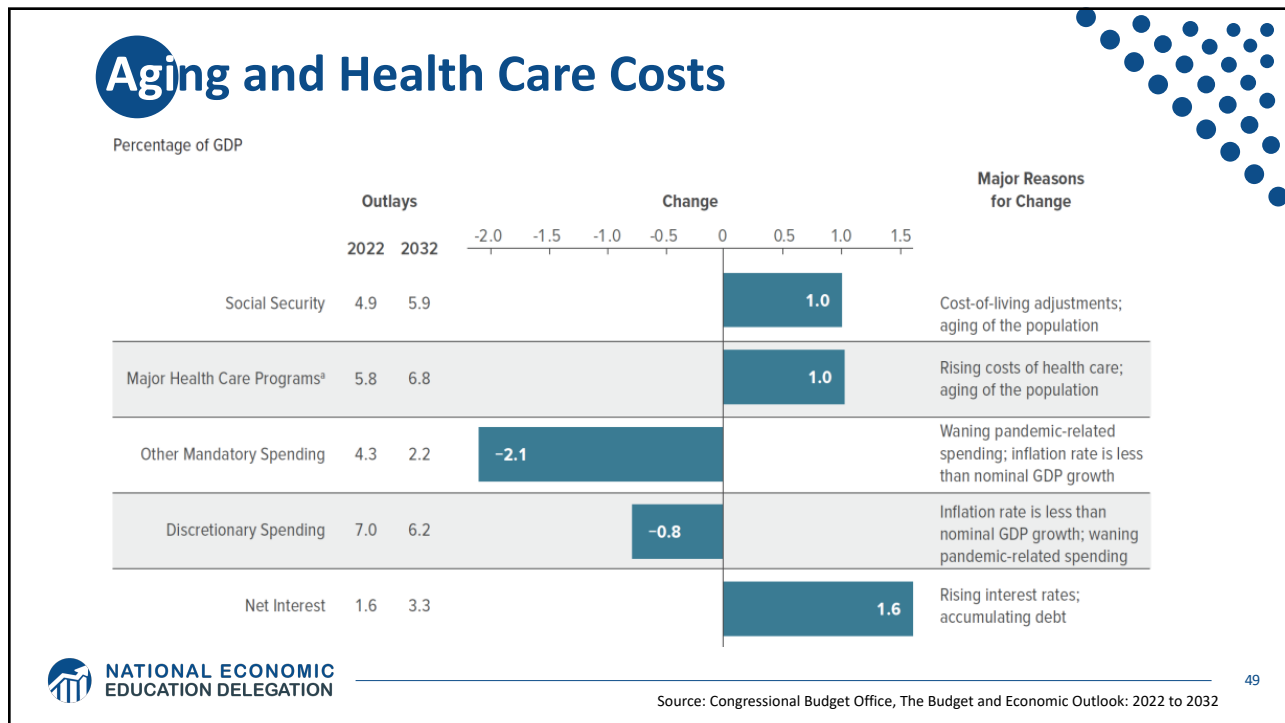


Source: Congressional Budget Office, The Budget and Economic Outlook: 2023 to 2033

48

48






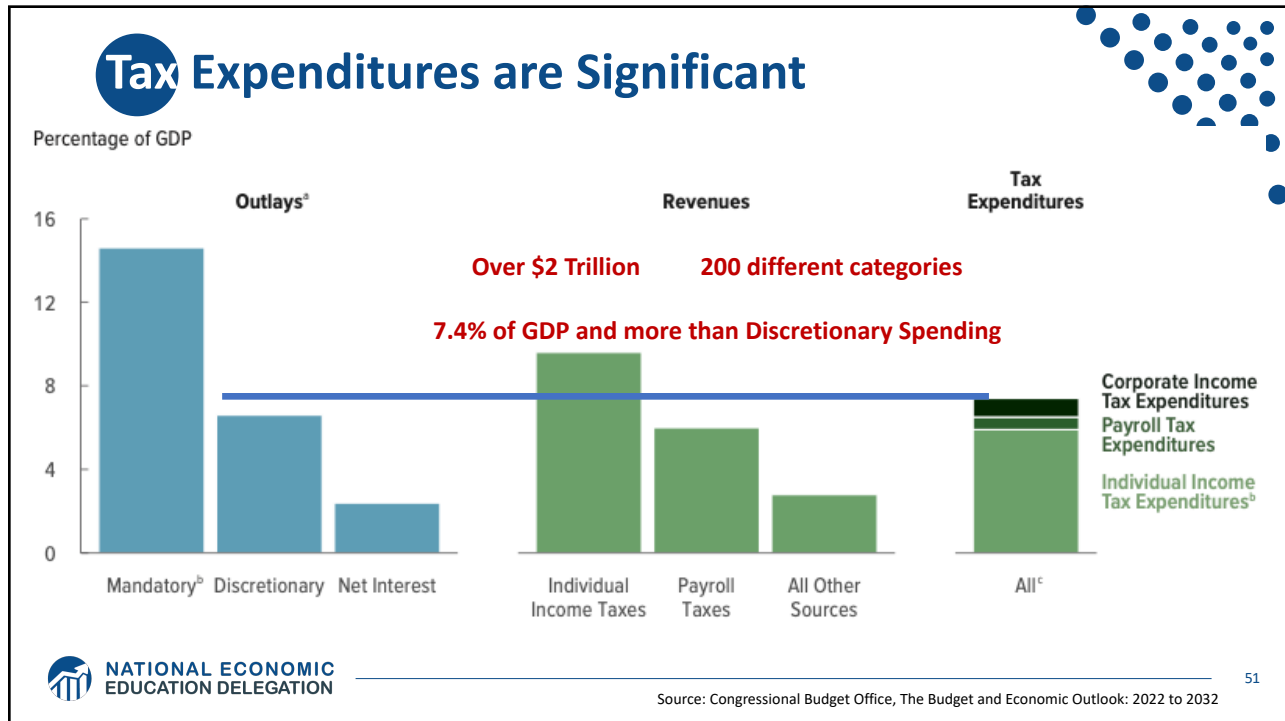
49

## Another Category of Spending: Tax Expenditures

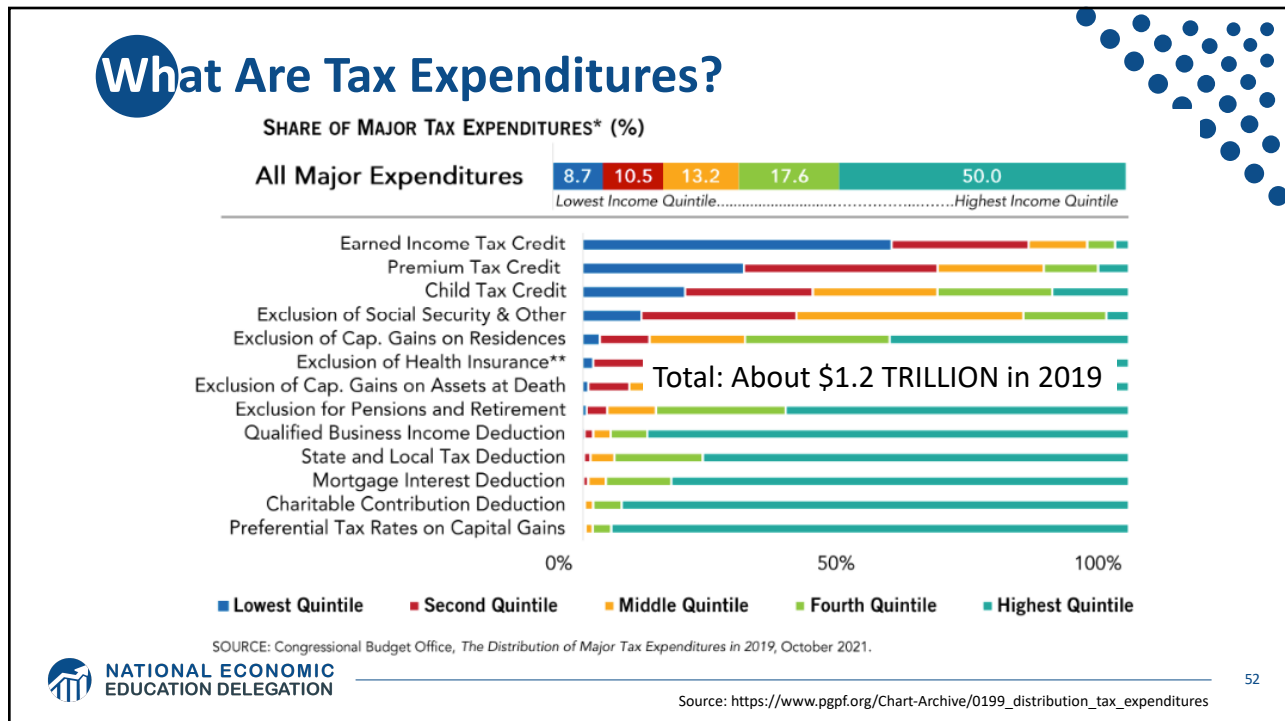
- **Description**
  - Social policies that are implemented and paid for through the tax code.
- **List of the largest tax breaks:**
  - Mortgage interest deduction
  - Retirement contributions
  - State and local taxes
  - Health insurance
  - Low tax rates for Capital Gains
  - Child related tax credits
  - Charitable gifts
  - Lifetime Learning
- **Evidence of who they benefit**
  - Regressive

 NATIONAL ECONOMIC EDUCATION DELEGATION 50

50



51

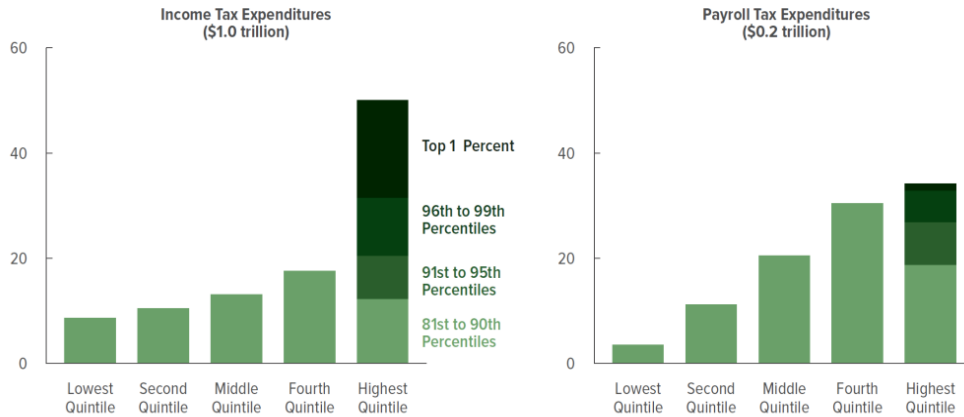


52

# Distributional Effects of Tax Expenditures

## Shares of Combined Major Tax Expenditures, 2019

Percent

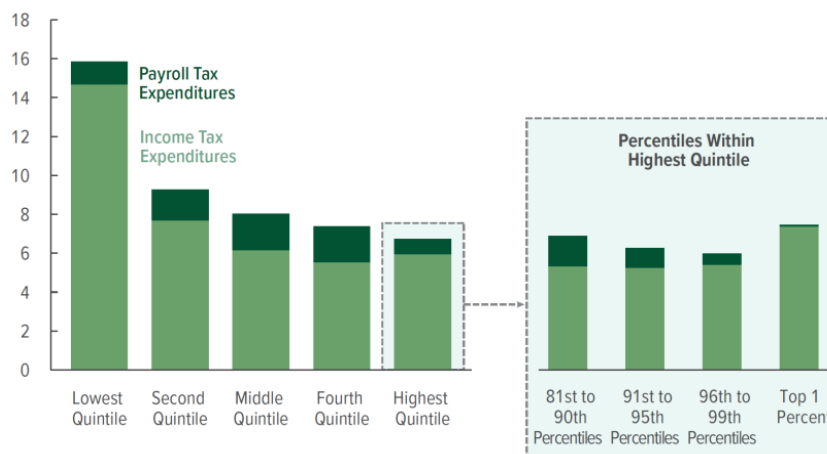


53

# Distributional Effects of Tax Expenditures

## Combined Major Tax Expenditures as a Share of Income, 2019

Percentage of Income Before Transfers and Taxes



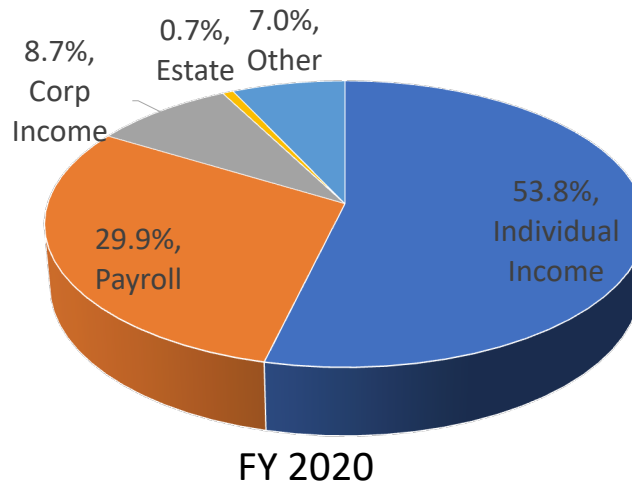
54

# US Government Revenues

55

## Where Do Federal Revenues Come From?

Most Federal revenues are raised on earned income.



FY 2020

56

# Individual Income Taxes

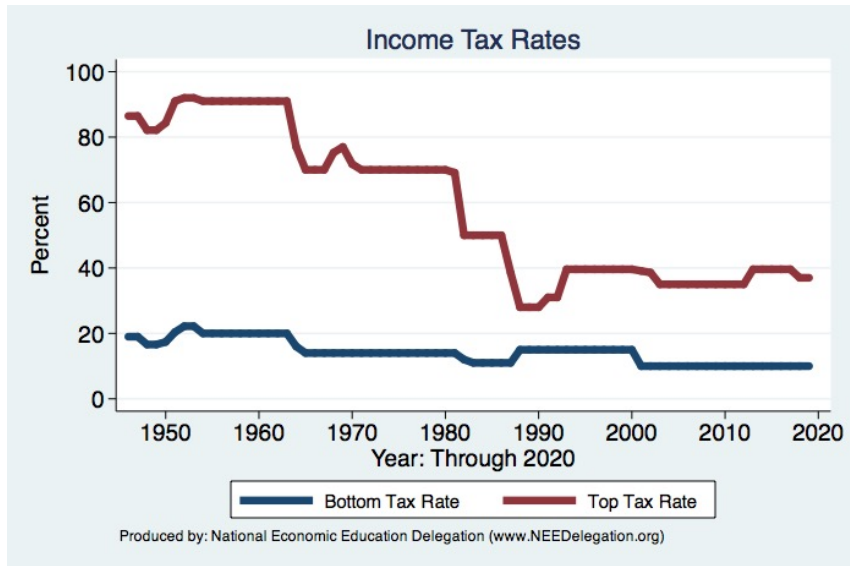
- **Marginal tax rates**
- **Not all income is subject to the same tax rates**
  - capital gains
- **Deductions**
  - Talked about as Tax Expenditures

# Marginal Tax Rates: Married Filing Jointly (2022)

- **Income is taxed differently at different levels.**
- **Individuals are taxed the same way, regardless of overall taxable income:**
  - First dollar is taxed at 10%
  - 20,551st dollar is taxed at 12%

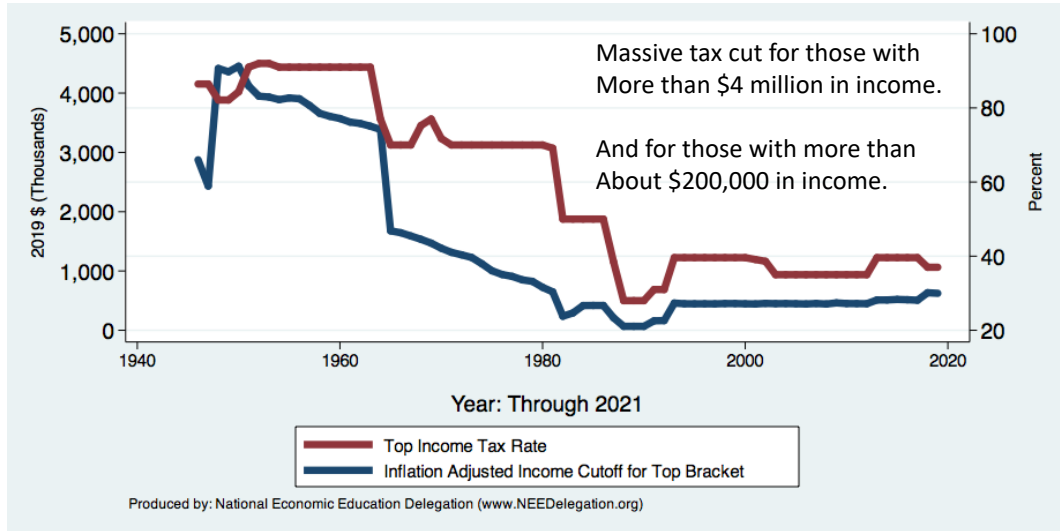
Income Above	Tax Rate
0	10%
20,550	12%
83,550	22%
178,150	24%
340,100	32%
431,900	35%
647,850	37%

# Tax Rates Over Time



59

# The Top Tax Rate and Income Cutoff



60

# Progressive Tax System

- Tax Systems are:

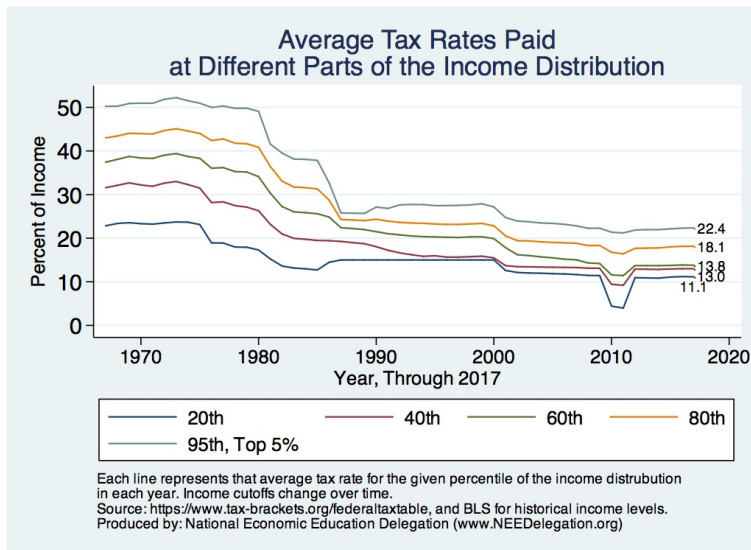
- **Progressive:** increasing average tax with income
- **Neutral or flat:** same share of income at all income levels
- **Regressive:** decreasing average tax with income (sales tax)

- Ability to pay rises with income.

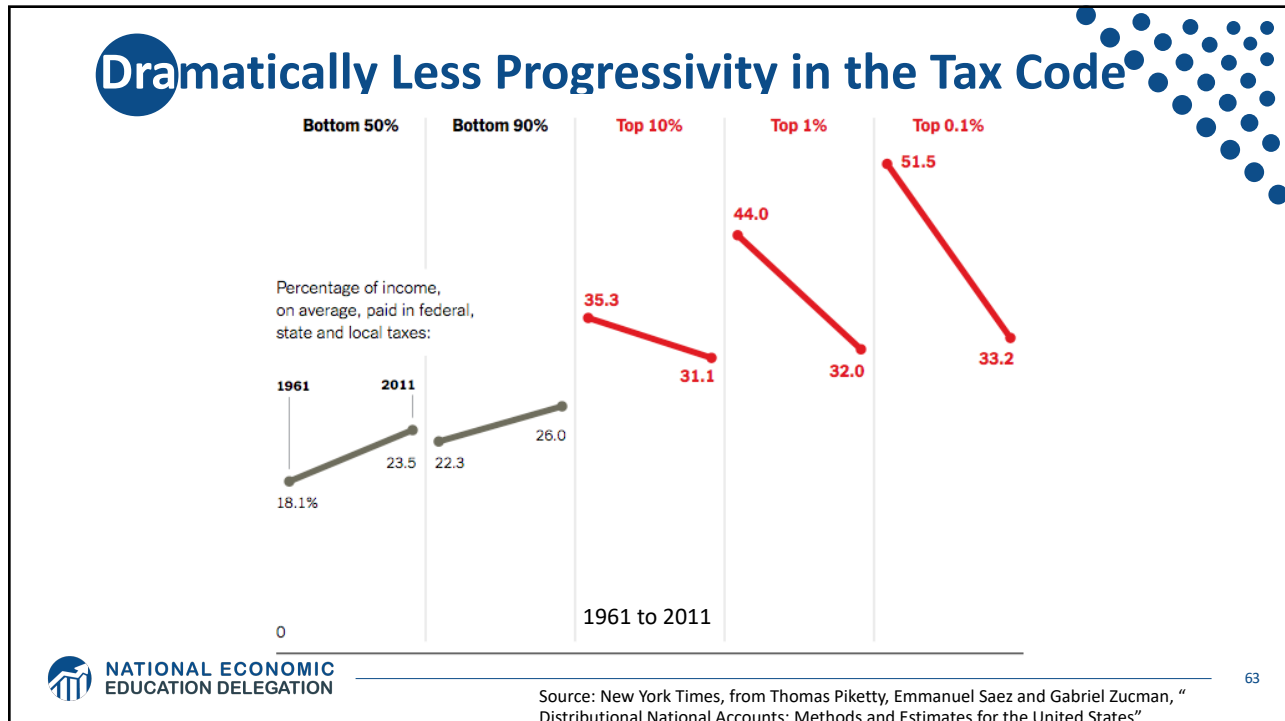
- Income Inequality.

61

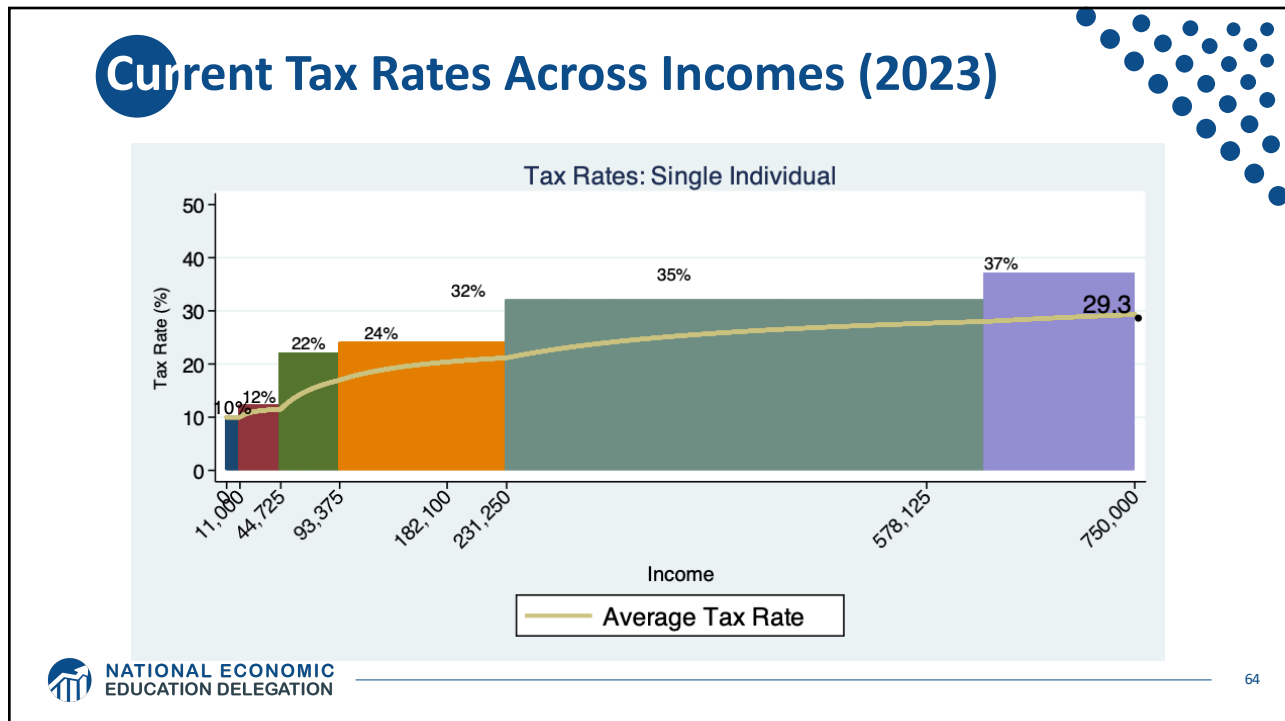
# Average: Coming Down – Mostly at the Top



62

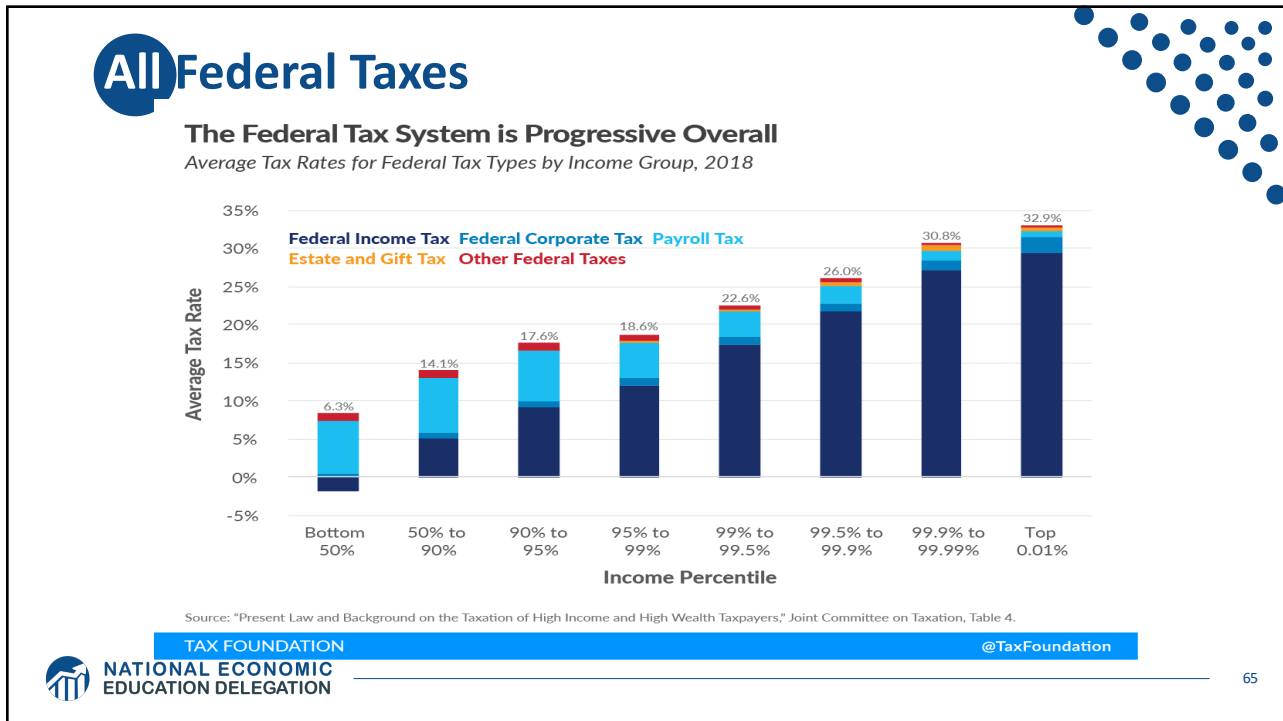


63

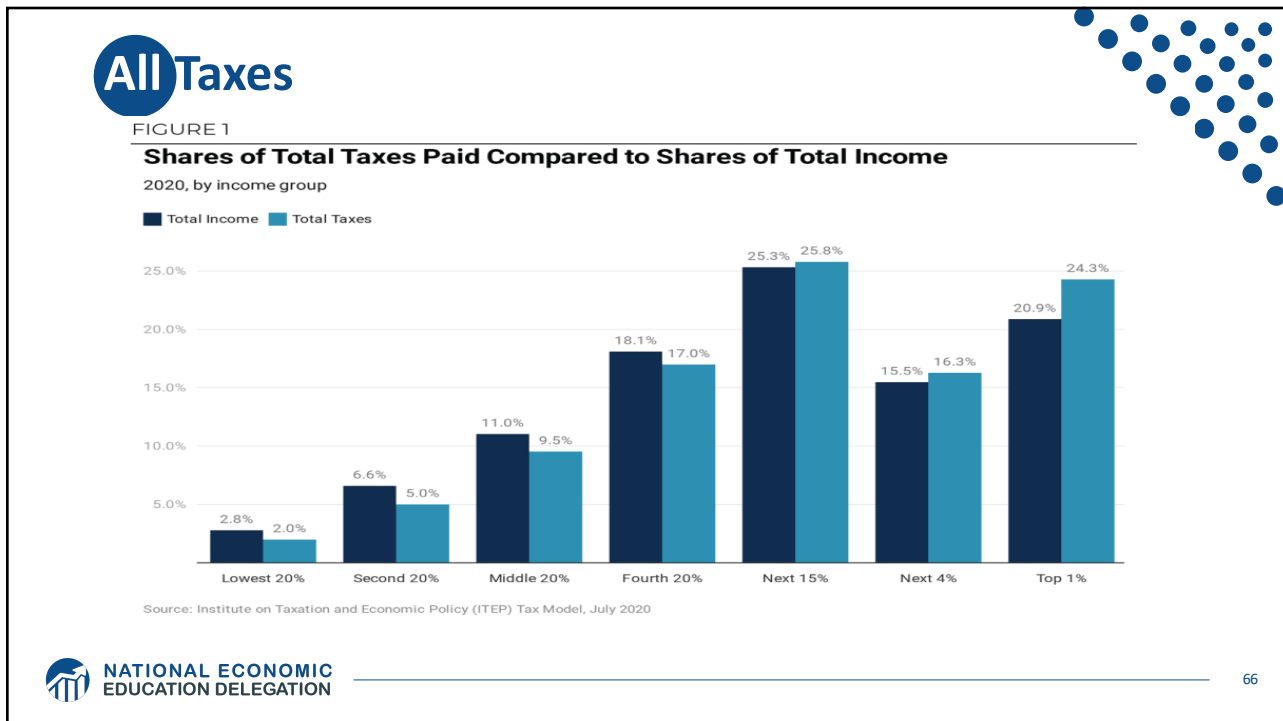


64





65



66

## Average Tax is a Bit More Complicated

- Is ability to pay better measured by taxable income, or before tax income?
- Remember tax expenditures.
- But not all tax expenditures are bad: medical expense deductibility.
- In judging inequality you have to look at the effect of *transfers* as well as *all* taxes.
- No perfect answers

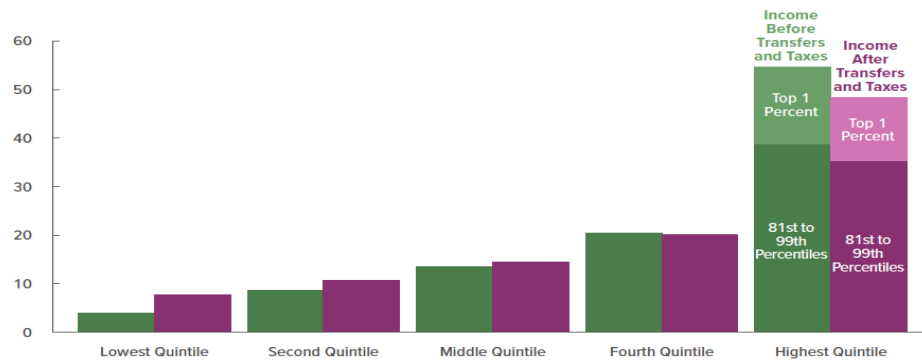
67

## Federal Taxes and Transfers

Exhibit 21.

### Shares of Income Before and After Transfers and Taxes, 2019

Percent



Data source: Congressional Budget Office. See [www.cbo.gov/publication/58353#data](http://www.cbo.gov/publication/58353#data).

Shares do not add up to 100 percent because households with negative income are not shown.

For information about the methods underlying this analysis, see Appendix A. For detailed definitions of income measures, see Appendix B.

68

## The Bottom 40% Don't Pay Income Taxes?

- There is a common narrative that the bottom 40% don't pay income taxes.
- But they pay other taxes and they also pay state and local taxes
  - Payroll
  - State and local taxes
  - Excise taxes – see the slide 4 slides ago.
- But, previous slide shows that the bottom 60% are net beneficiaries of *Federal* tax and transfer system.
- Is that bad?



## Income Quintiles in 2019

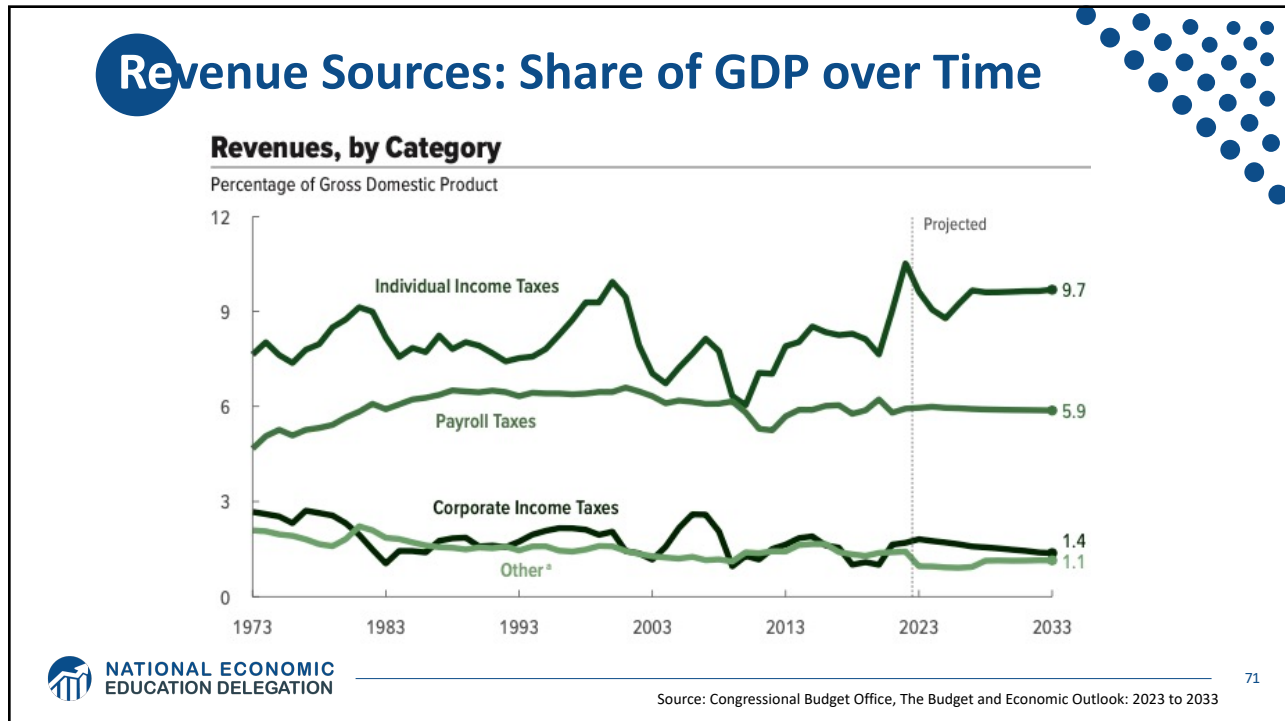
### Average Income within the quintile:

1. \$17,200
2. \$39,600
3. \$67,500
4. \$108,700
5. \$318,900

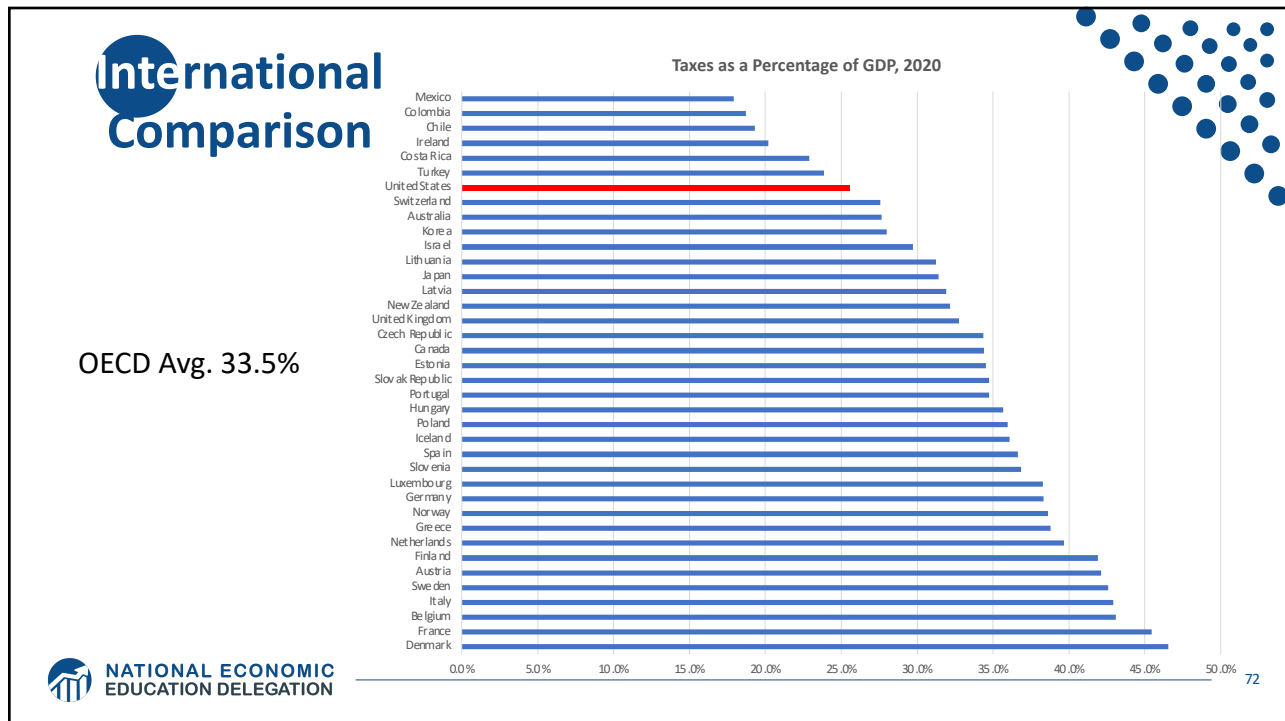
### • At the top:

- 81-90, \$166,600;
- 91-95, \$236,700;
- 96-99, \$403,600;
- top 1%, \$1,983,700





71

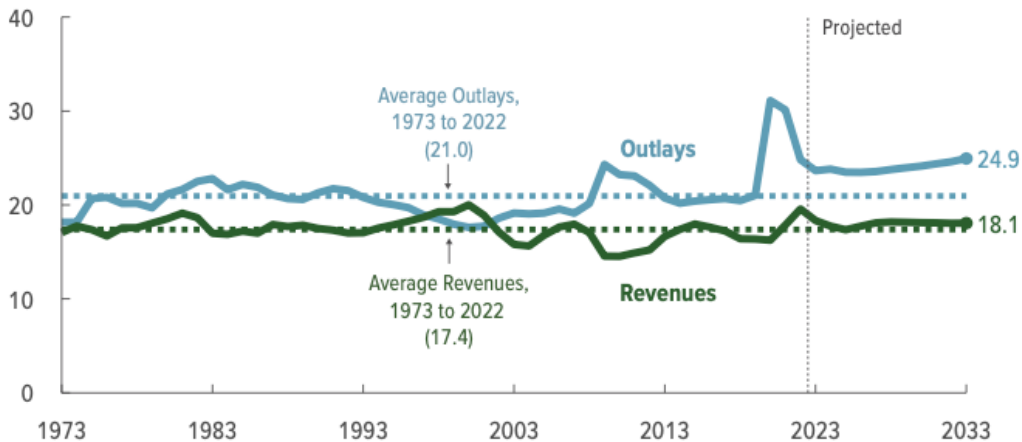


72

## Summary: Past and Future Budgets

### Total Outlays and Revenues

Percentage of Gross Domestic Product



73

## Summary: Slide 1

- **Total Federal Spending: \$4.9 Trillion in FY 2022**
- **There is remarkably little discretion in each budget:**
  - Mandatory: 74%
  - Discretionary 26%
- **Fastest growing parts of the budget: Health Care and Interest**
- **By 2052:**
  - Debt is forecast to grow to 185% of GDP, from 98% now
  - Interest payments are forecast to grow from 7% to 24% of budget

74

## Summary Slide1a: Tax Expenditures

- ...Are policy enacted through the tax code.
- ...Are not explicitly on the books.
- ...Add > 25% to budget deficit.
- ...Reduce the progressive nature of the tax code.
- ...Are larger than all of “Discretionary Spending”.

75

## Summary: Slide 2

- **Most Federal Revenues come from taxes on earned income.**
- **Tax and Transfer System is modestly progressive, particularly at the lowest quintile.**
- **Both these statement are true:**
  - Top 20% of earners pay 2/3rds of total taxes.
  - But, this is only slightly more than their share of pre-tax income, 62%

76

## Citizen's Guide To Government Shutdown

- **Federal fiscal year: Oct 1– Sep 30**
  - Ends Saturday night.
- **Action needs to be taken to fund key government services before the end of the fiscal year.**
- **So far, not looking good.**
  - Senate – bipartisan agreement (Temporary)
  - House – disarray....



77

## Implications (1)

- **Families Will Get Cut Off from Food Assistance Programs:** Vital nutrition assistance is at risk for nearly 7 million women and children who rely on the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)—a program that serves nearly half of babies born in this country.
- **Kids May Lose Access to Head Start:** Thousands of children across the country may lose access to Head Start, as the Department of Health and Human Services wouldn't be able to award Head Start Grants during a shutdown.
- **Critical Services like Disaster Preparedness and Response Will Be Interrupted:** A shutdown would create an increased risk that FEMA's Disaster Relief Fund is depleted and would complicate new emergency response efforts if additional catastrophic disasters occur. Funding for long-term recovery projects would also remain halted, worsening ongoing delays as FEMA awaits new appropriations.



78

## Implications (2)

- **Servicemembers and Law Enforcement Officers Will Work Without Pay:** All active-duty military personnel and many law enforcement officers would remain at work but receive no pay until funds are available.
- **Access to our National Parks May Be Shut Off:** Maintenance of parks will also be suspended — including restroom cleaning, visitor services, and trash collection.
- **Small Businesses Will Not Get New Loans from the SBA:** The Small Business Administration will not accept, review, or approve any new business loans in the event of a shut down.
- **Travelers May Face Significant Delays:** Air traffic controllers and TSA Officers are expected to work without pay—potentially leading to significant delays and longer wait times for travelers at airports across the country like there were during previous shutdowns.



## Solutions?

- **Usually "continuing resolutions".**
  - Keep spending as we were this year.
  - Extends last year's budget into next year.
- **Others?**
  - Your guess is as good as mine.





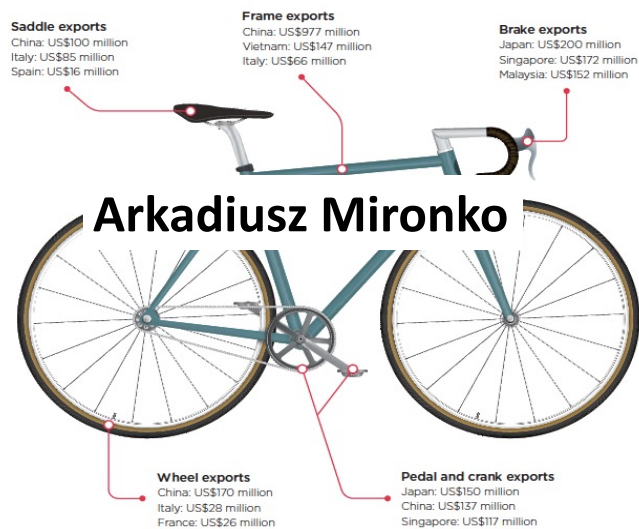
## Economic Implications?

- **Short closure? None (well, vanishingly small)**
- **Long term?**
  - Could grow to be significant.
  - Essentially, a cut in government spending.
    - Drag on economic growth.
    - Fuel the potential for a recession, along with:
      - high interest rates
      - UAW strike
- **Other: Ukraine War Funding**

81

## Trade: Bicycle Supply Chain

Figure 1.1 Where do bicycles come from?



82

**Thank you!**

## Any Questions?

[www.NEEDEcon.org](http://www.NEEDEcon.org)

Jon Haveman, Ph.D.

Jon@NEEDEcon.org

Contact NEED: [info@NEEDEcon.org](mailto:info@NEEDEcon.org)

Submit a testimonial: [www.NEEDEcon.org/testimonials.php](http://www.NEEDEcon.org/testimonials.php)

Become a Friend of NEED: [www.NEEDEcon.org/friend.php](http://www.NEEDEcon.org/friend.php)



NATIONAL ECONOMIC  
EDUCATION DELEGATION

83

83

## Another Important Spending Distinction

- **Government Expenditures in GDP include *Federal, State, and Local.***
- **In 2021 (latest data), of the \$4,487b of government expenditures in GDP**
  - \$1,657b, or 37% are from the Federal Government.
  - \$2,380b, or 63% are from State and Local governments,
- **From here on, we will only be concerned with the Federal Budget.**



NATIONAL ECONOMIC  
EDUCATION DELEGATION

84

84

**Total Government Spending  
in the United States  
Fiscal Year 2023**

<b>Federal Gross Spending</b>	<b>\$6.4 trillion</b>
<b>Intergovernmental</b>	<b>-\$1.1 trillion</b>
<b>State Direct Spending</b>	<b>\$2.1 trillion</b>
<b>Local Direct Spending</b>	<b>\$2.3 trillion</b>
<b>Total Spending</b>	<b>\$9.7 trillion</b>