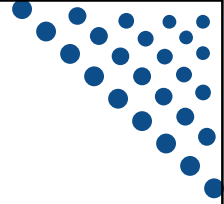


Osher Lifelong Learning Institute, Winter 2024 Contemporary Economic Policy

University of Rhode Island
Spring 2024

Jon Haveman, Ph.D.
National Economic Education Delegation



The US Federal Budget

Brian Peterson, Ph.D.
Vice President for Academic Affairs
Professor of Business and Accounting
LaGrange College
LaGrange, Georgia



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.



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



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

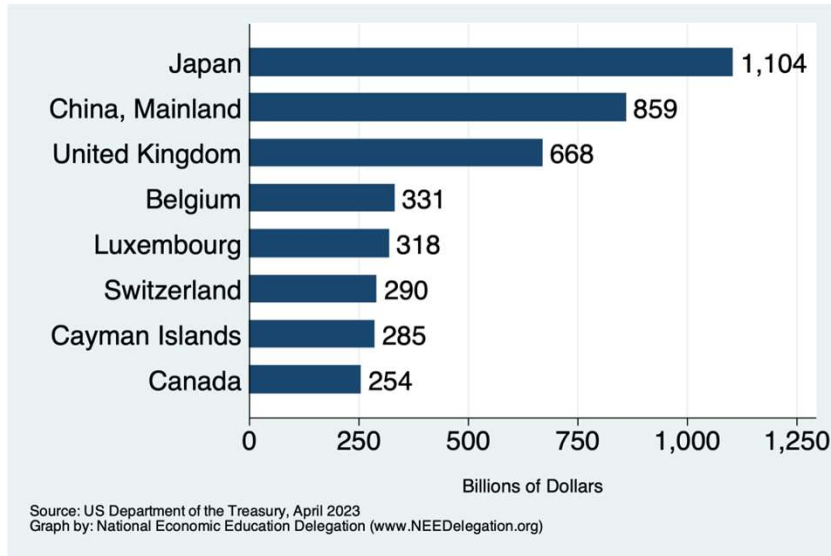


Course Outline

- **Contemporary Economic Policy**
 - **Week 2 (4/22): US Federal Budget (Brian Peterson, Lagrange College)**
 - Week 3 (4/29): Federal Debt (Joseph Carolan, Oakland University)
 - Week 4 (5/6): Climate Change Economics (Sarah Jacobson, Williams College)
 - Week 5 (5/13): Trade and Globalization (Avik Chakrabarti, Univ. Wisconsin- Milwaukee)
 - Week 6 (5/20): International Institutions (Alan Deardorff, University of Michigan)



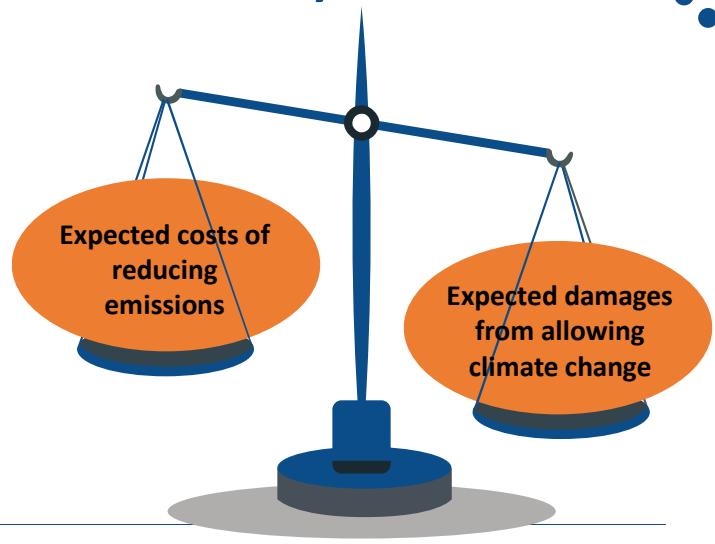
Who Holds US Debt?



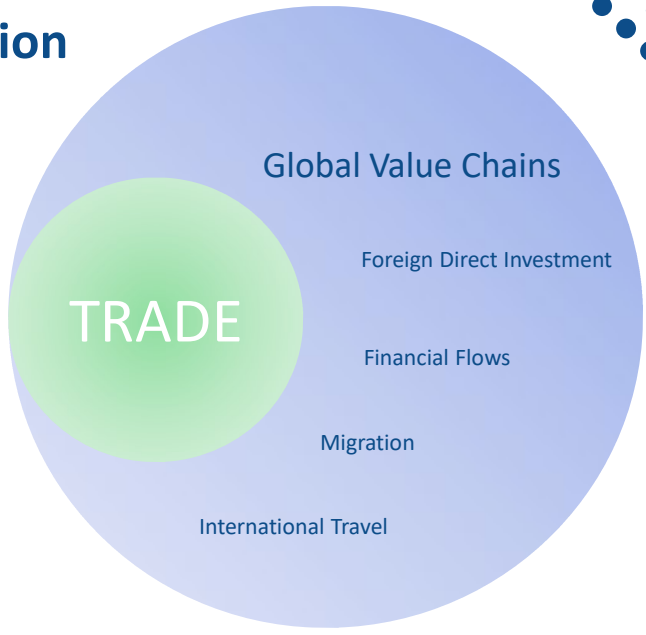
How Economists Decide How Much to Fight Climate Change: Cost Benefit Analysis

Abating greenhouse gas emissions is costly...
... but without action, climate change damages are even more costly.

Goal is not zero emissions, but efficient level that achieves a balance.



What is Globalization



Main Economic Institutions



Credits and Disclaimer

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

- Jon Haveman, Executive Director, NEED
- Geoffrey Woglom, Amherst College, Emeritus

- **Disclaimer**

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



Submitting Questions

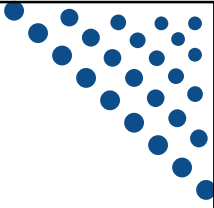

- **Please submit questions of clarification in the chat.**

- I will try to handle them as they come up.

- **We can have a verbal Q&A once the material has been presented.**

- **Slides will be available from the NEED website tomorrow (https://needelegation.org/delivered_presentations.php)**





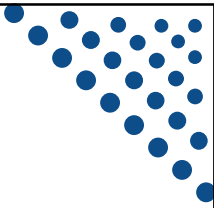
The US Federal Budget

Brian Peterson
LaGrange College




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Outline

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



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Budget Overview

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

Fiscal Year 2022 Budget Summary

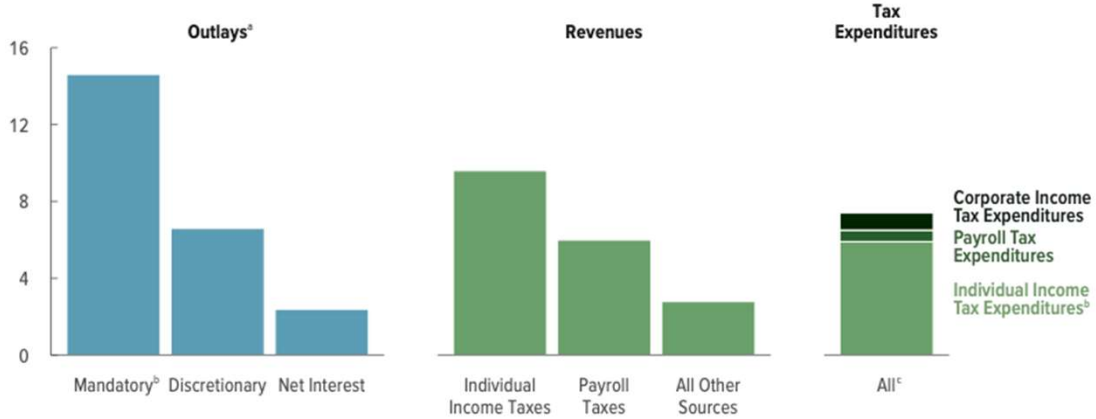
Revenue	Billions		Expenditures	Billions	
Income Taxes	\$2,632		Mandatory	\$4,010*	
Payroll Taxes	\$1,484		Discretionary	\$1,787*	
Corporate Taxes	\$425		Interest	\$475	
Other	\$356				
Total	\$4,896	19.8%	Total	\$6,272	25.4%

Budget Deficit: \$1,375 Billion 5.5%

Budget Components

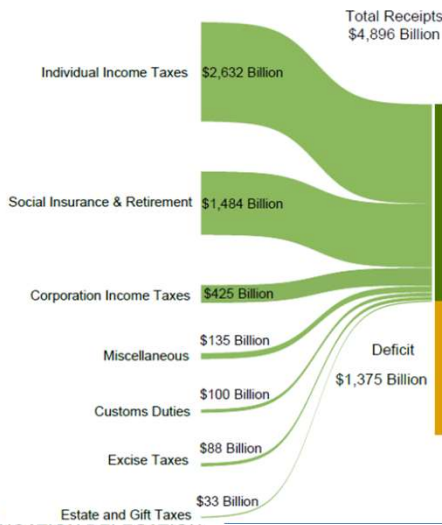
Estimated Outlays, Revenues, and Tax Expenditures in 2023

Percentage of GDP

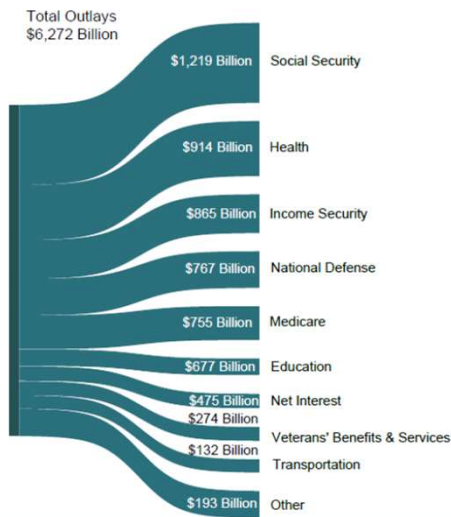


The Budget Details

Receipts by Source:

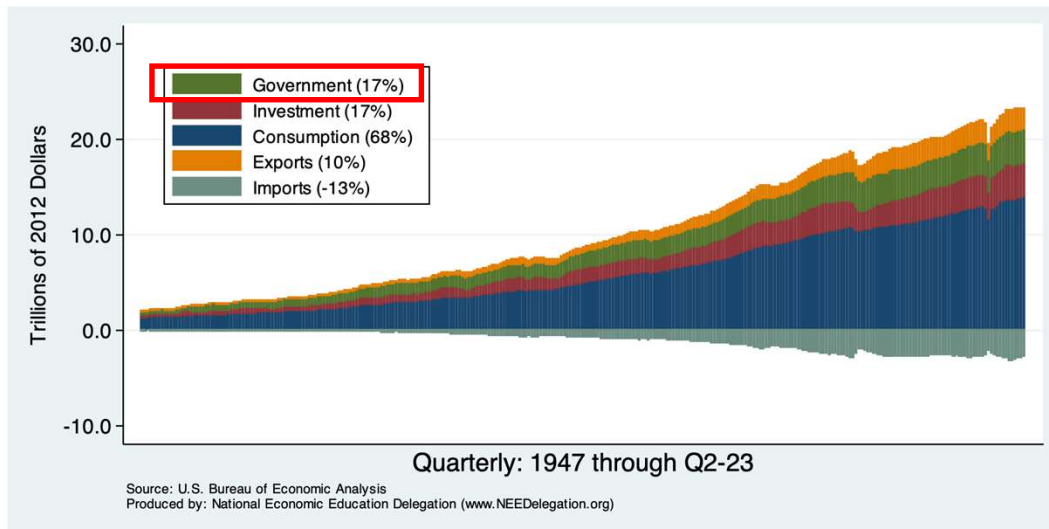


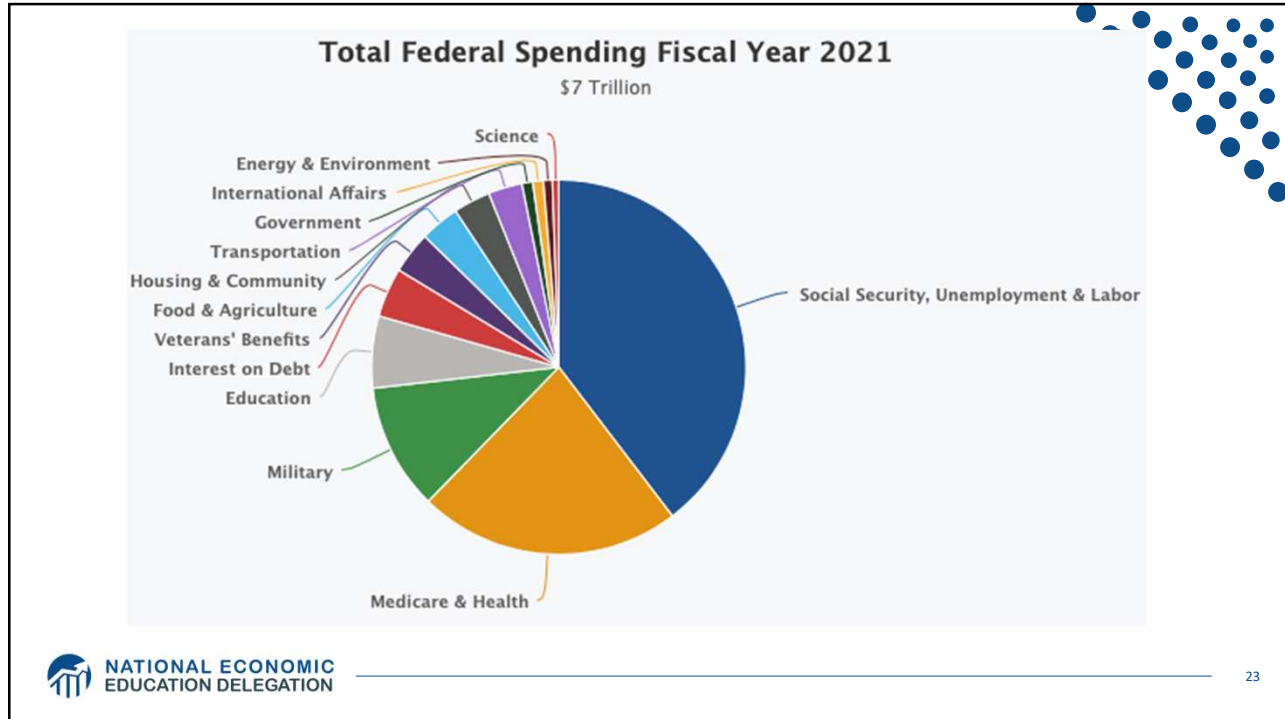
Outlays by Function:



U.S. Government Spending

Gov't Expenditures and the US Economy





An Important Distinction:

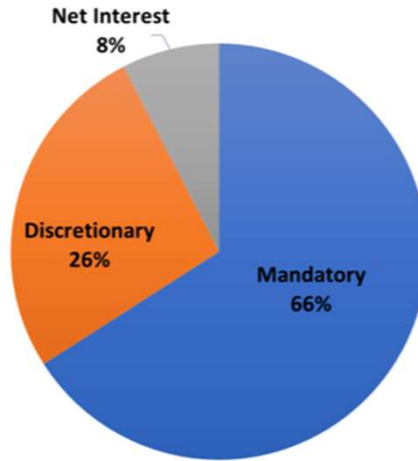
- **Mandatory vs. Discretionary Spending:**
 - **Discretionary** Spending requires annual appropriations, e.g., most of Defense.
 - **Mandatory** Spending is ongoing authorization to spend mostly on “entitlements:” such as Social Security and Medicare.
- **Budget for 2022:**
 - Mandatory + Net Interest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

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Source: Hutchins Center 24

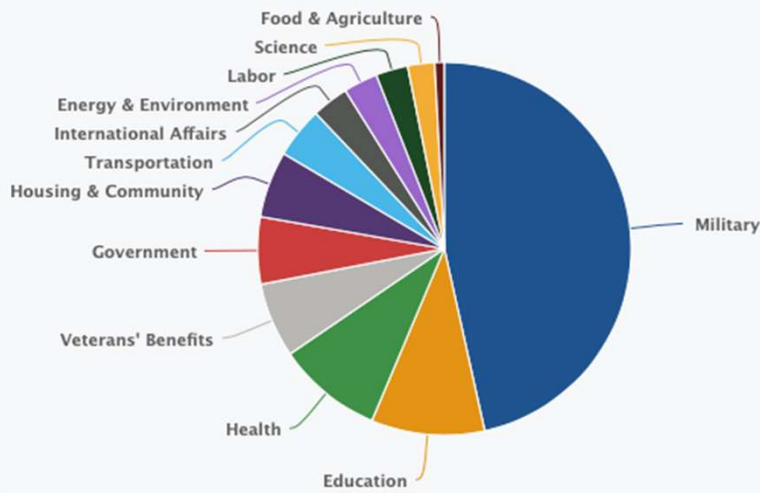
On What is the Money Spent? It's Complicated

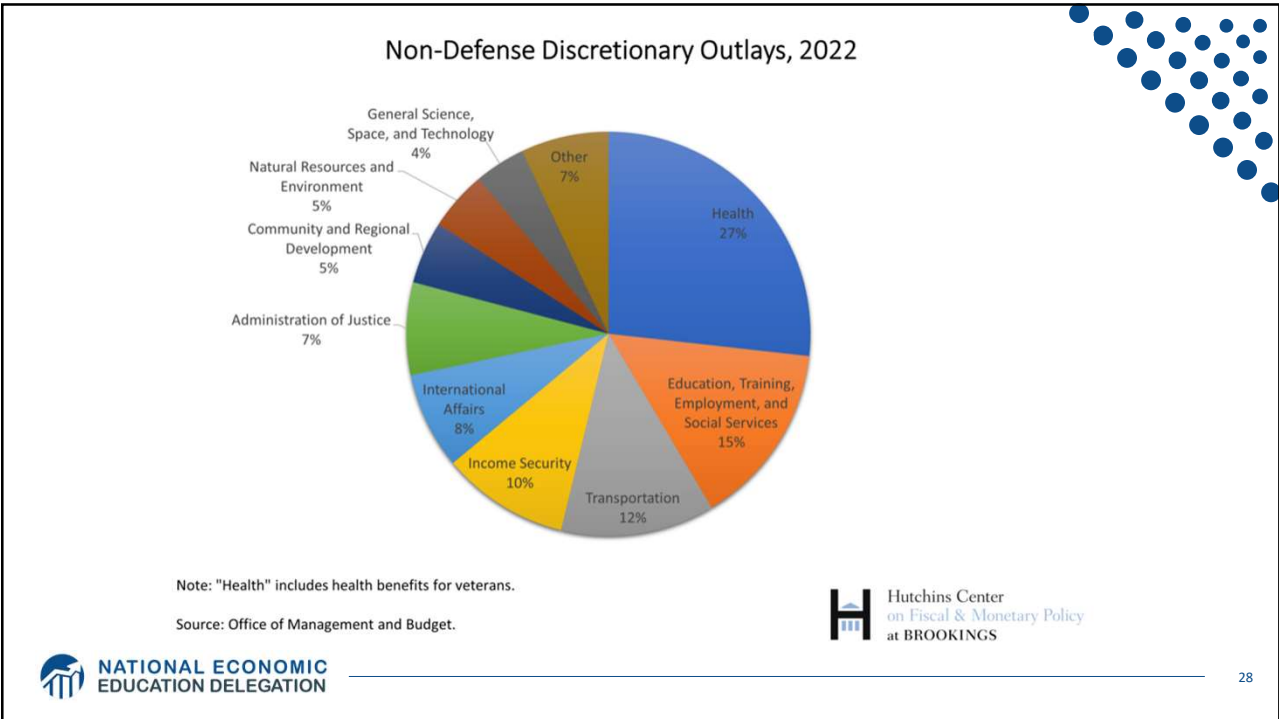
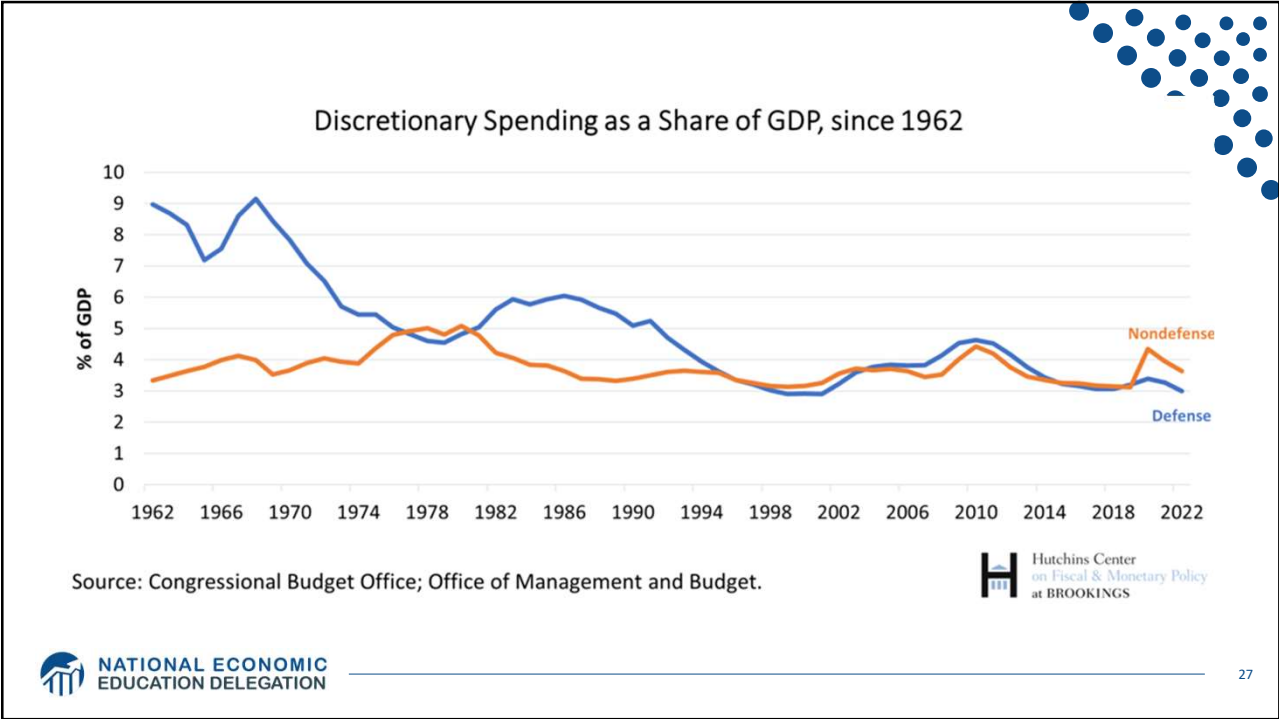
Federal Spending Breakdown, 2022

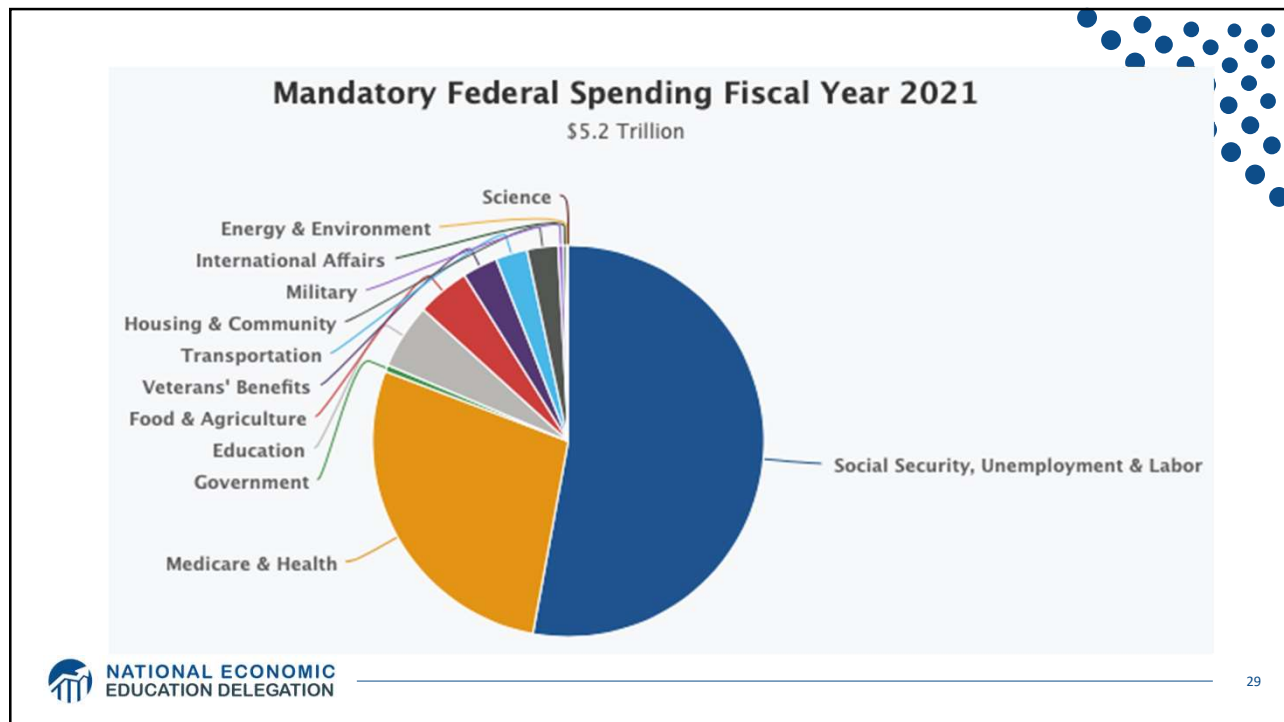


Federal Discretionary Spending Fiscal Year 2021


\$1.6 Trillion







Mandatory Spending: Social Security



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

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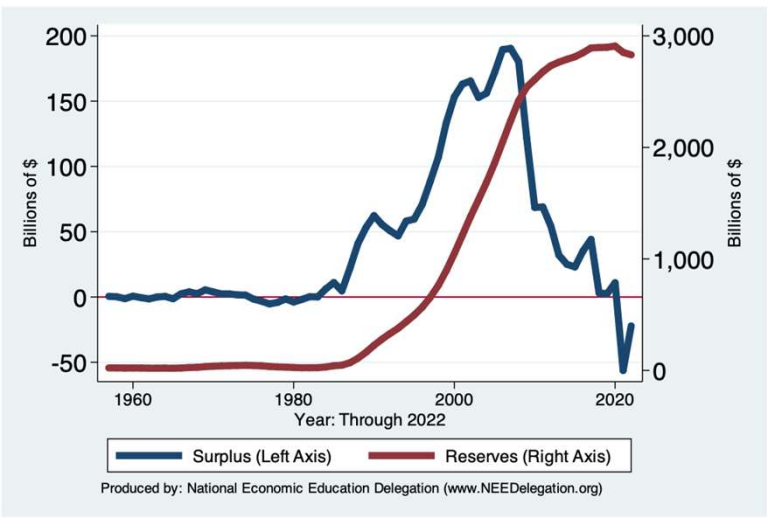
30

Where Do Social Security Funds Come From?

- **Payroll taxes**
 - Tax rates:
 - Employee: 6.2%
 - Employer: 6.2%
 - Self Employed: 12.4%
 - Cap in 2024: \$168,600
- **Taxes on OASDI benefits**
 - Not all benefits are taxed.
- **Interest earnings**

**Key Question:
Who pays?**

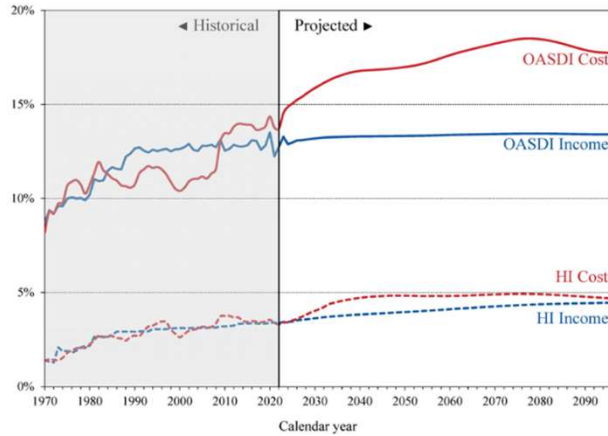
Social Security Trust Fund



- **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**

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]

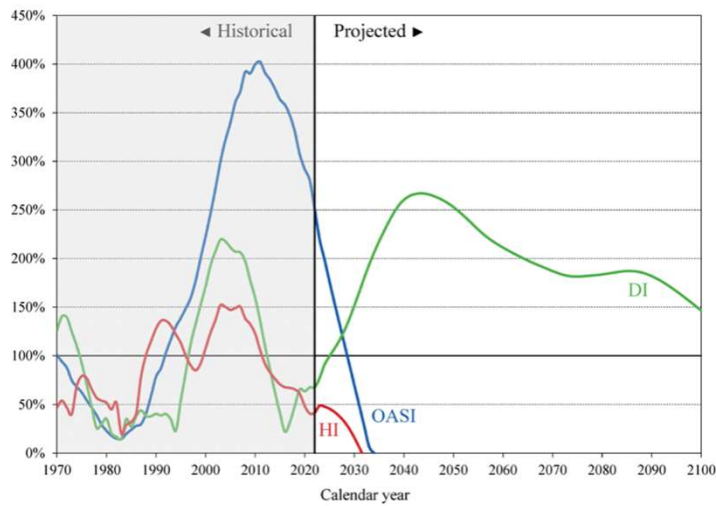


Table 7: KEY DATES FOR THE TRUST FUNDS

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

^a Dates indicate the first year a condition is projected to occur and then persist each year through 2097.

^b Projected annual balances remain positive through 2097.

^c The trust fund asset reserves are not projected to become depleted during the 75-year period ending in 2097.

^d If the legally separate OASI and DI trust funds were combined, the hypothetical combined OASDI asset reserves would become depleted in this year.



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 2036 would be necessary.



Mandatory Spending: Medicare

- **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.



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.



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

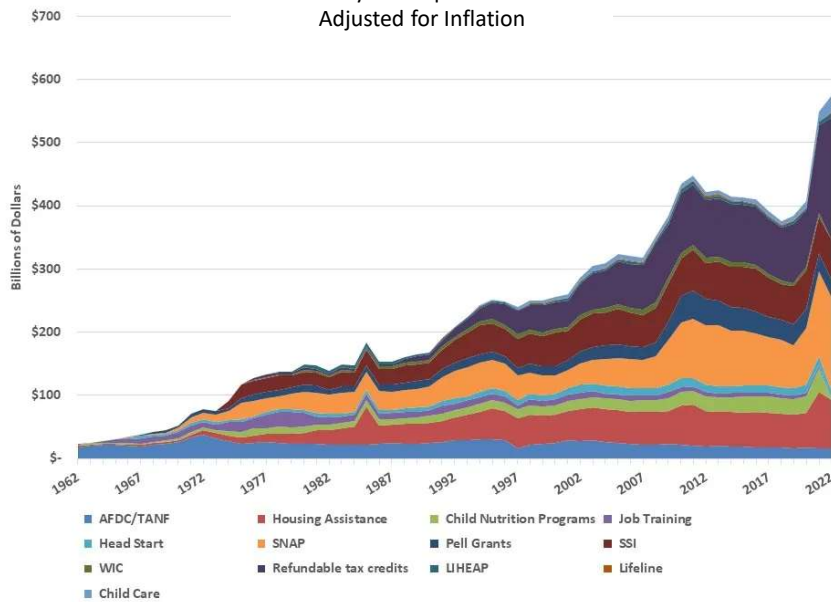
- **Medicaid provides medical insurance for those whose income and resources are insufficient to pay for health care.**
- **It is a program with costs shared with the states.**
- **Amount spent in FY 2022: \$838 Billion**
 - Federal: 70% or \$589 Billion
 - States: 30% \$249 Billion
- **People served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



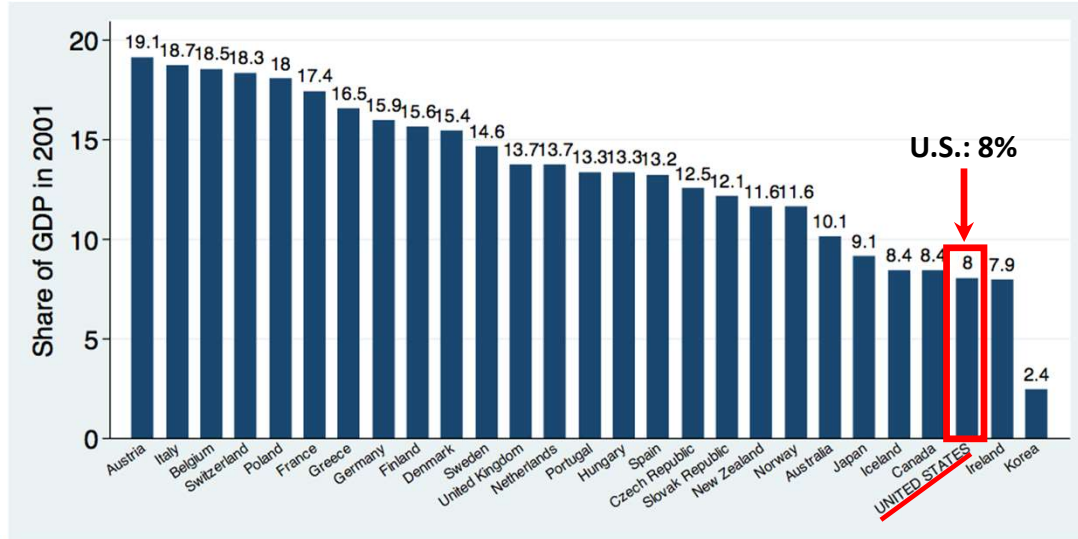
Mandatory Spending: Income Security

- Earned Income Tax Credit (EITC)
- Supplemental Nutrition Assistance Program (SNAP)
- Supplemental Security Income (SSI)
- Unemployment Compensation
- Temporary Assistance for Needy Families (TANF)
- Housing
- Women, Infants, and Children (WIC)
- School Lunches
- Head Start

Safety Net Expenditures Adjusted for Inflation



Safety Net Spending Across the OECD



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Source: World Bank Social Safety Nets Primer Notes

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



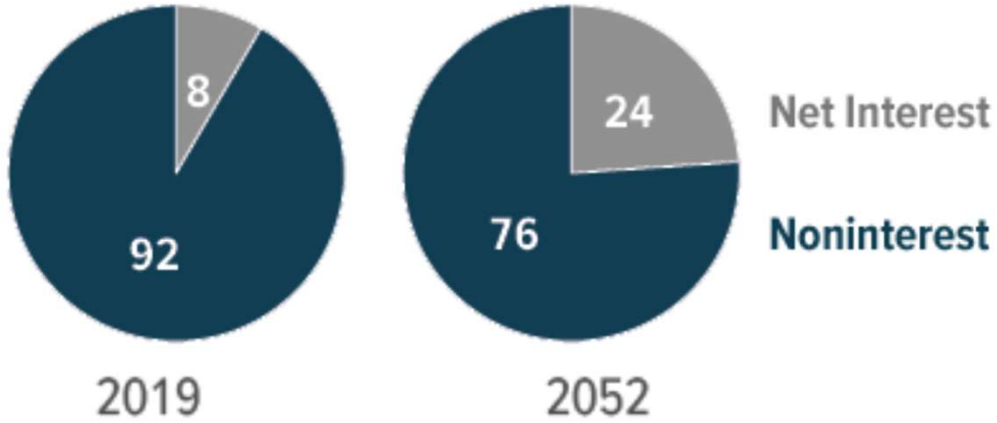
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Source: CBO, July 2022 Long-term Budget Projections

Interest Will Grow as a Share of the Deficit

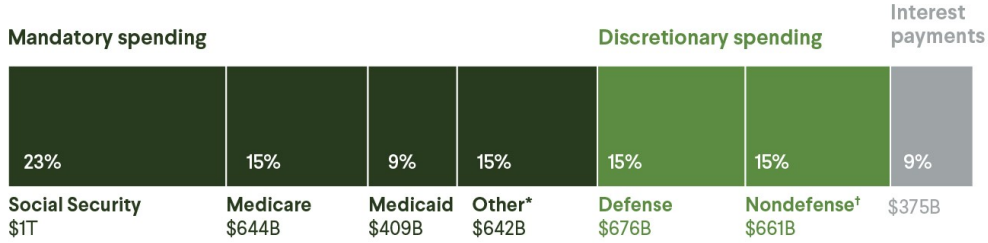
Total Outlays



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.

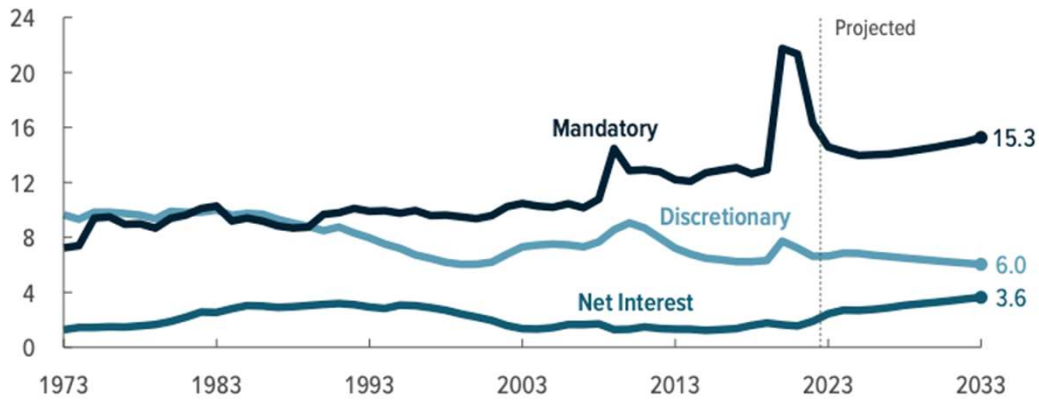
Source: Congressional Budget Office.

COUNCIL on FOREIGN RELATIONS

Mandatory Spending Dominates Projections

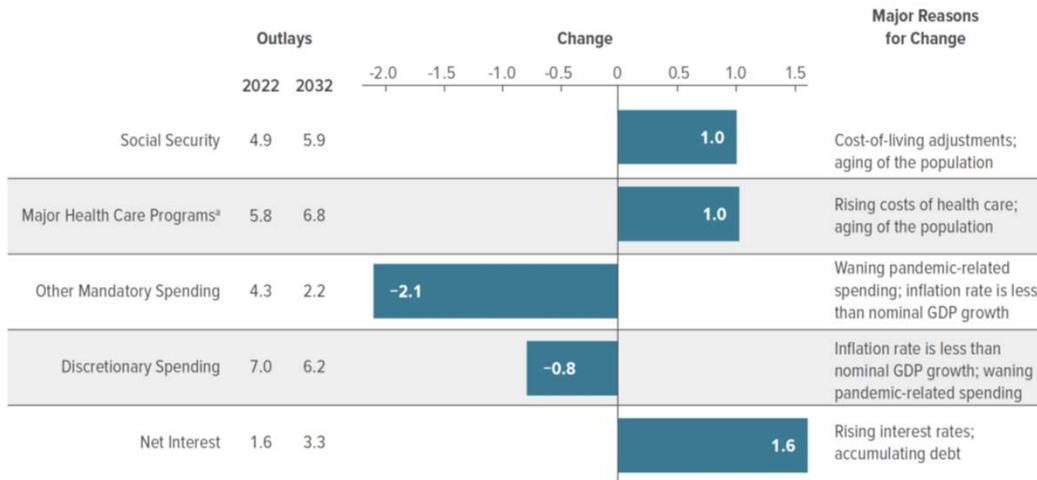
Outlays, by Category

Percentage of Gross Domestic Product



Aging and Health Care Costs

Percentage of GDP



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Source: Congressional Budget Office, The Budget and Economic Outlook: 2022 to 2032

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

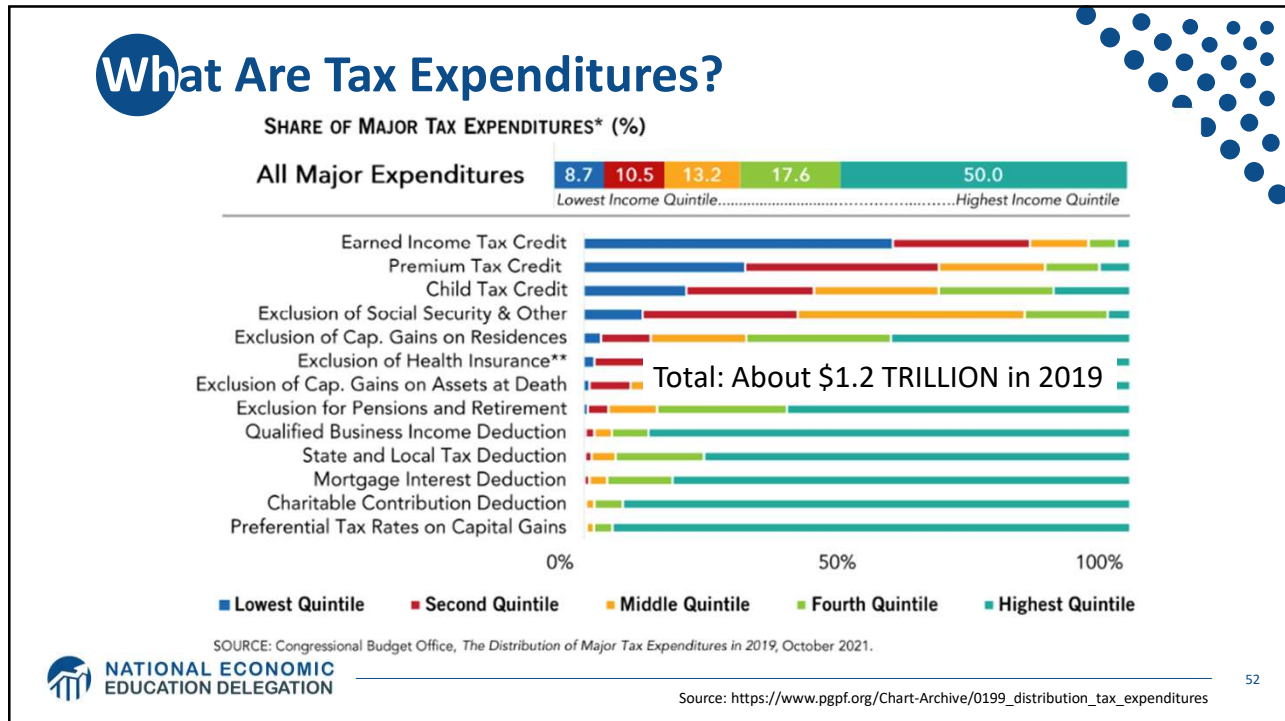
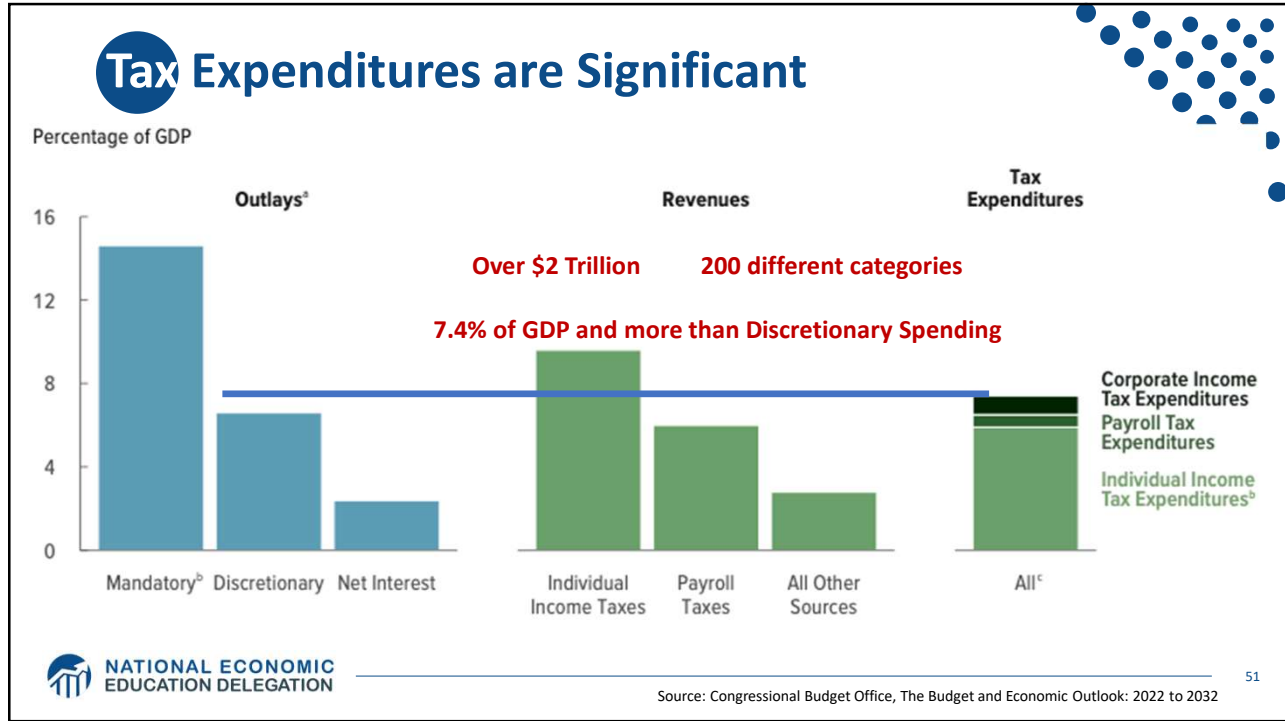
- **Evidence of who they benefit**

- Regressive



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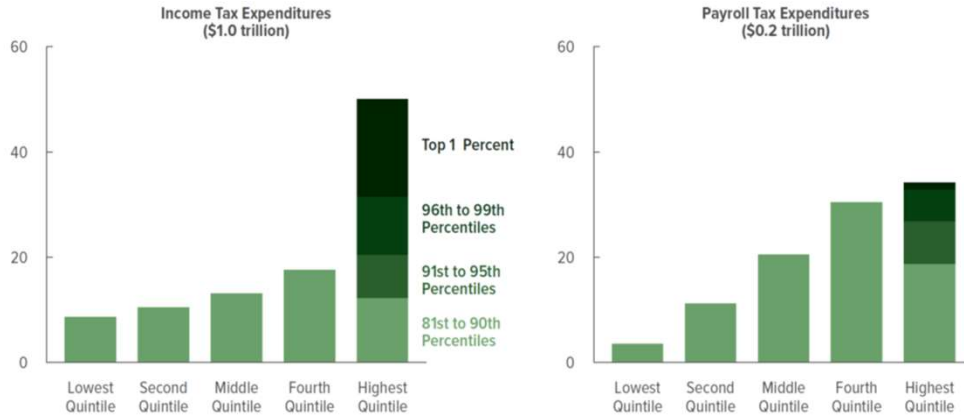
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Distributional Effects of Tax Expenditures

Shares of Combined Major Tax Expenditures, 2019

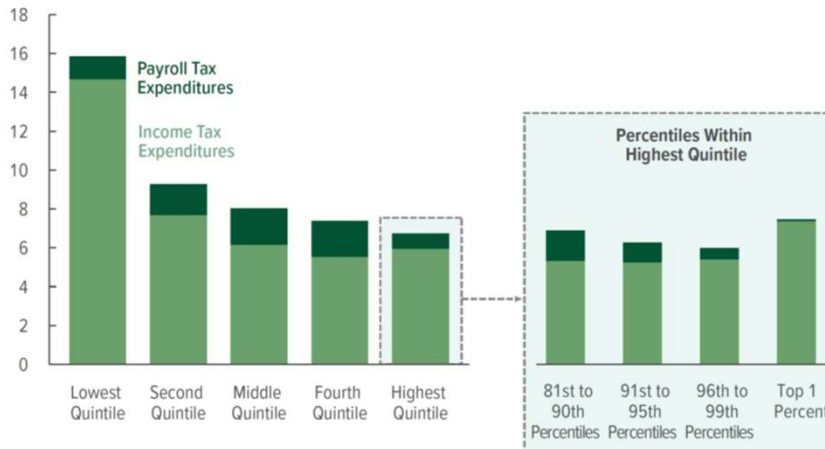
Percent



Distributional Effects of Tax Expenditures

Combined Major Tax Expenditures as a Share of Income, 2019

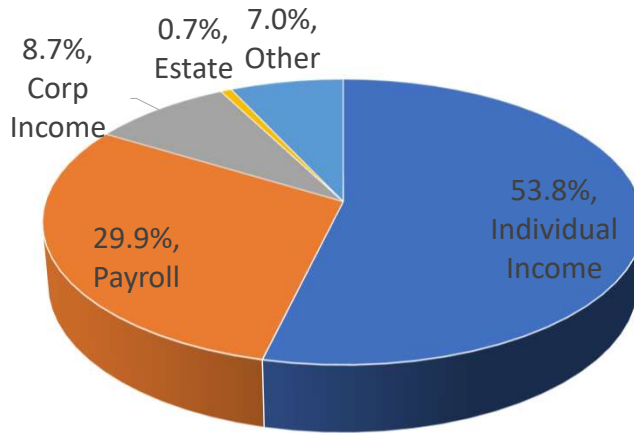
Percentage of Income Before Transfers and Taxes



US Government Revenues

Where Do Federal Revenues Come From?

Most Federal revenues are raised on earned income.



FY 2020

Individual Income Taxes

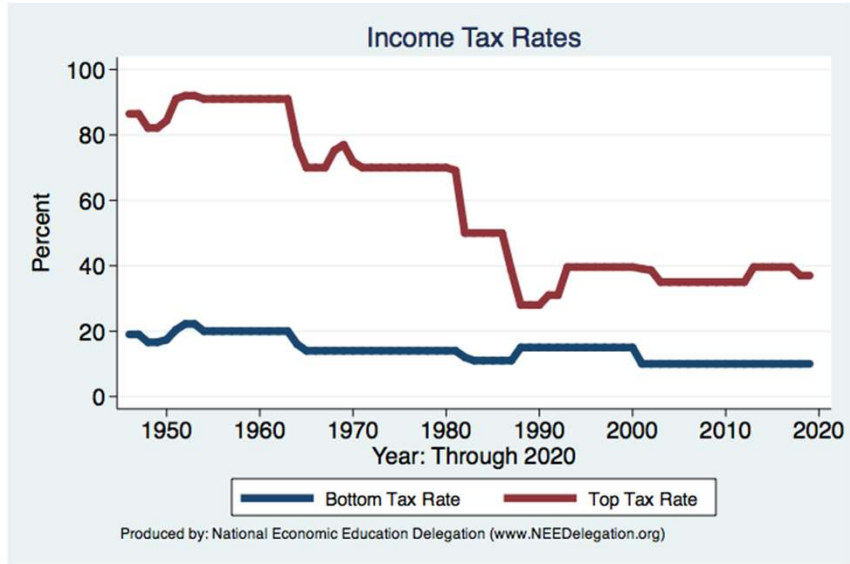
- Marginal tax rates
- Not all income is taxed
- Deductions
 - Talked about as tax expenditures

Marginal Tax Rates: Married Filing Jointly (2023)

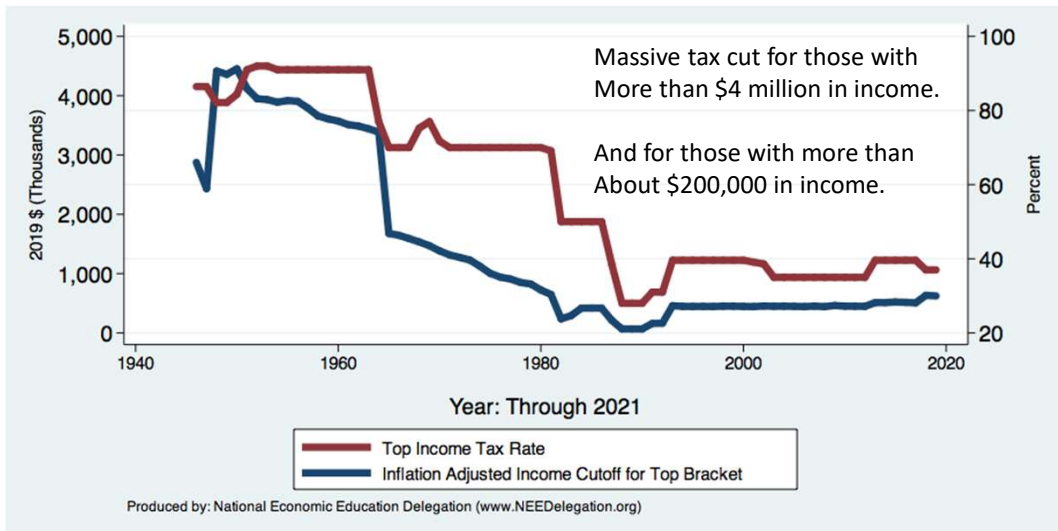
- Income is taxed differently at different levels.
- Individuals are taxed the same way, regardless of overall taxable income:
 - First dollar is taxed at 10%
 - 22,001st dollar is taxed at 12%

Income Above	Tax Rate
0-20,000	10%
22,001-89,450	12%
89,451-190,750	22%
190,751 – 364,200	24%
364,201-462,500	32%
462,501-693,750	35%
Above 693,751	37%

Tax Rates Over Time



The Top Tax Rate and Income Cutoff



Progressive Tax System

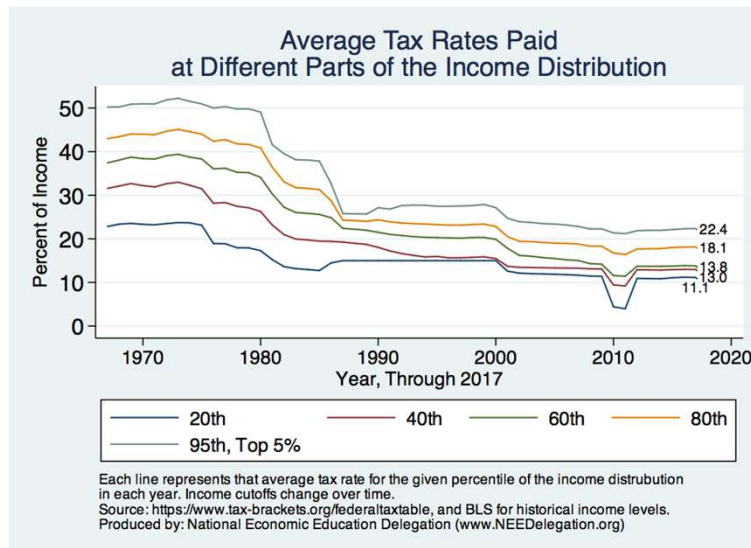
• Tax Systems are:

- **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)

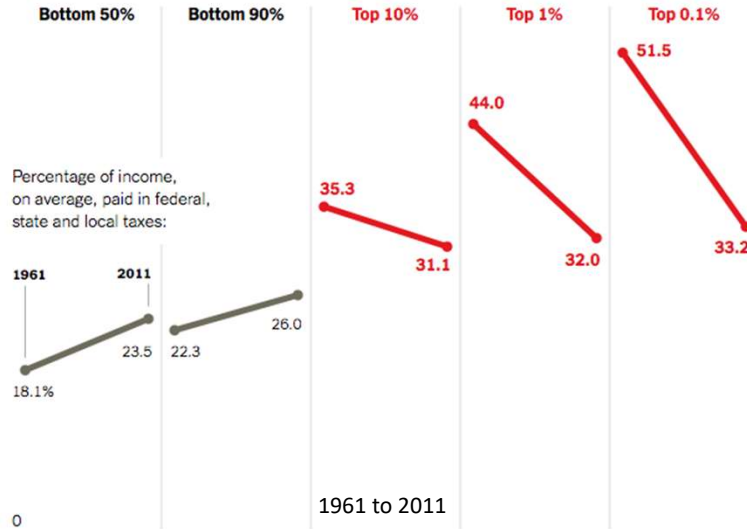
• Ability to pay rises with income.

• Income Inequality.

Average: Coming Down – Mostly at the Top



Dramatically Less Progressivity in the Tax Code



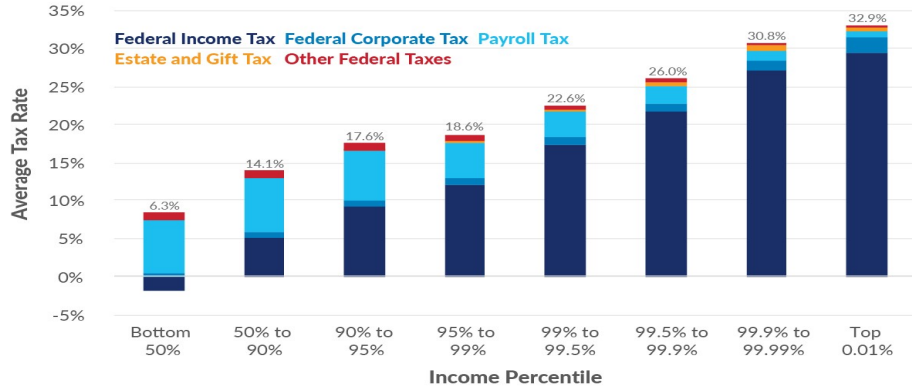
Current Tax Rates Across Incomes (2023)



All Federal Taxes

The Federal Tax System is Progressive Overall

Average Tax Rates for Federal Tax Types by Income Group, 2018



Source: "Present Law and Background on the Taxation of High Income and High Wealth Taxpayers," Joint Committee on Taxation, Table 4.



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@TaxFoundation

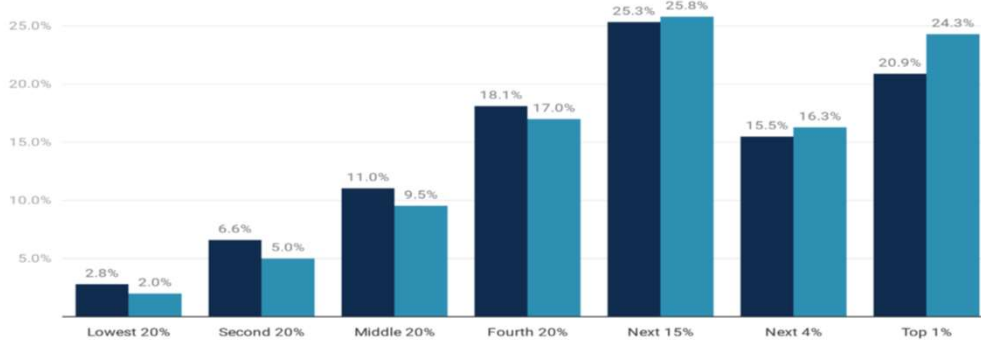
All Taxes

FIGURE 1

Shares of Total Taxes Paid Compared to Shares of Total Income

2020, by income group

■ Total Income ■ Total Taxes



Source: Institute on Taxation and Economic Policy (ITEP) Tax Model, July 2020



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Average Tax is a Bit More Complicated

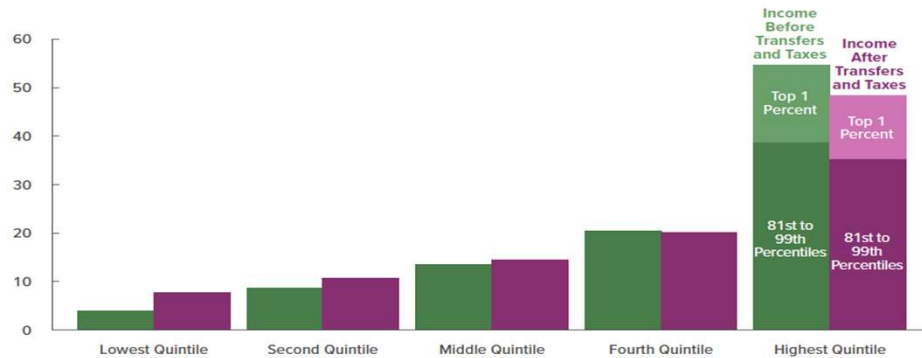
- Is ability to pay better measured by taxable income, or before tax income?
- Remember tax expenditures.
- But not all tax expenditures are bad: medical expense deductibility.
- In judging inequality you have to look at the effect of *transfers* as well as *all* taxes.
- No perfect answers

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.

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.

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, this portion of the income distribution 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:

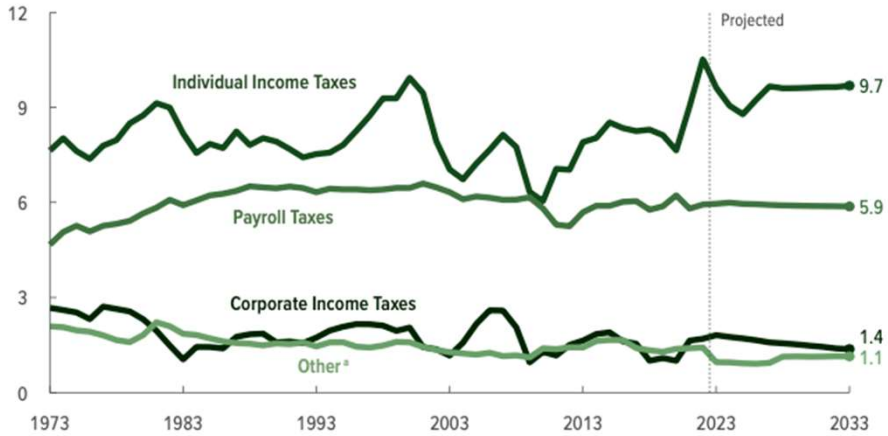
- 81-90, \$166,600;
- 91-95, \$236,700;
- 96-99, \$403,600;
- top 1%, \$1,983,700



Revenue Sources: Share of GDP over Time

Revenues, by Category

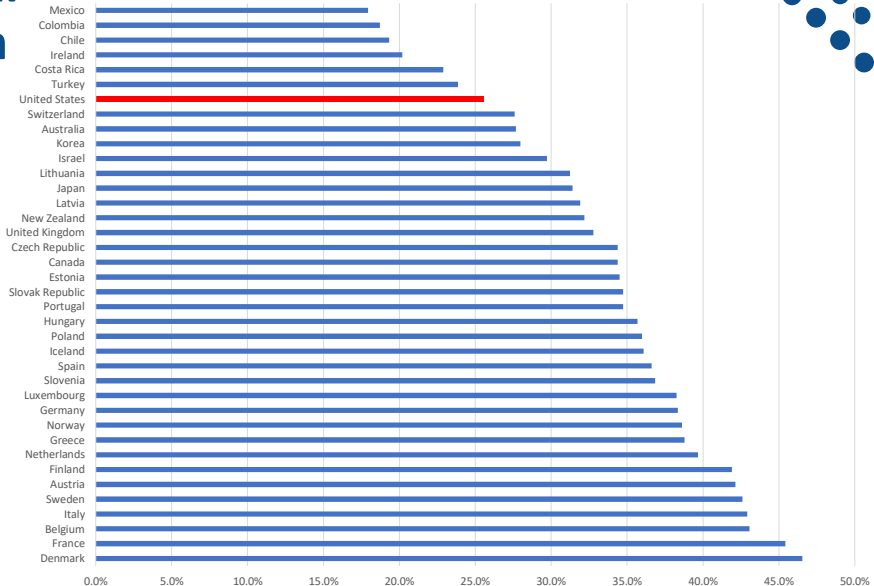
Percentage of Gross Domestic Product



International Comparison

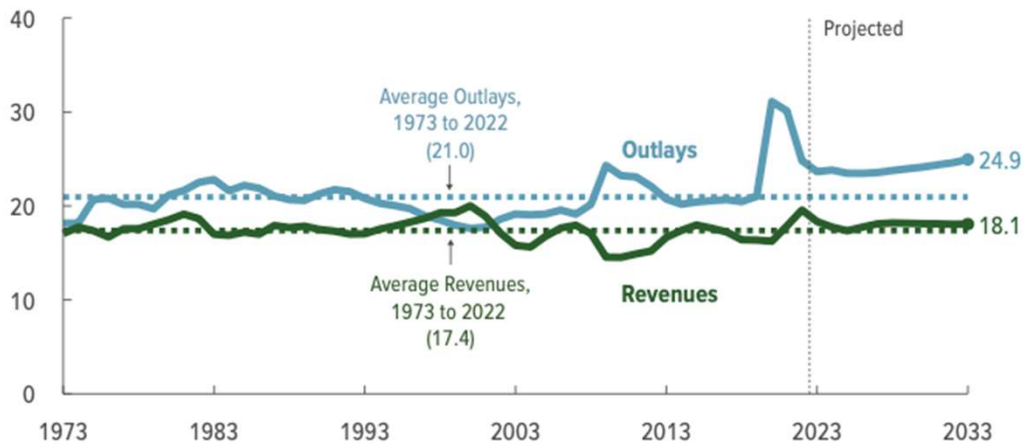
Taxes as a Percentage of GDP, 2020

OECD Avg. 33.5%



Summary: Past and Future Budgets

Total Outlays and Revenues Percentage of Gross Domestic Product



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 more than 100% now
 - Interest payments are forecast to grow from 7% to 24% of budget

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 “Discretionary Spending”.



Summary: Slide 2

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



Citizen's Guide To Government Shutdown

- **Federal fiscal year: Oct 1– Sep 30**
- **Action needs to be taken to fund key government services before the end of the fiscal year.**
- **In fall 2023...**
 - Senate – bipartisan agreement (Temporary)
 - House – disarray....



Implications (1)

- **Families Will Get Cut Off from Food Assistance Programs**
- **Kids May Lose Access to Head Start**
- **Critical Services like Disaster Preparedness and Response Will Be Interrupted**



Implications (2)

- **Servicemembers and Law Enforcement Officers Will Work Without Pay**
- **Access to our National Parks May Be Shut Off**
- **Small Businesses Will Not Get New Loans from the SBA**
- **Travelers May Face Significant Delays**



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**



Thank you!

Any Questions?

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

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