

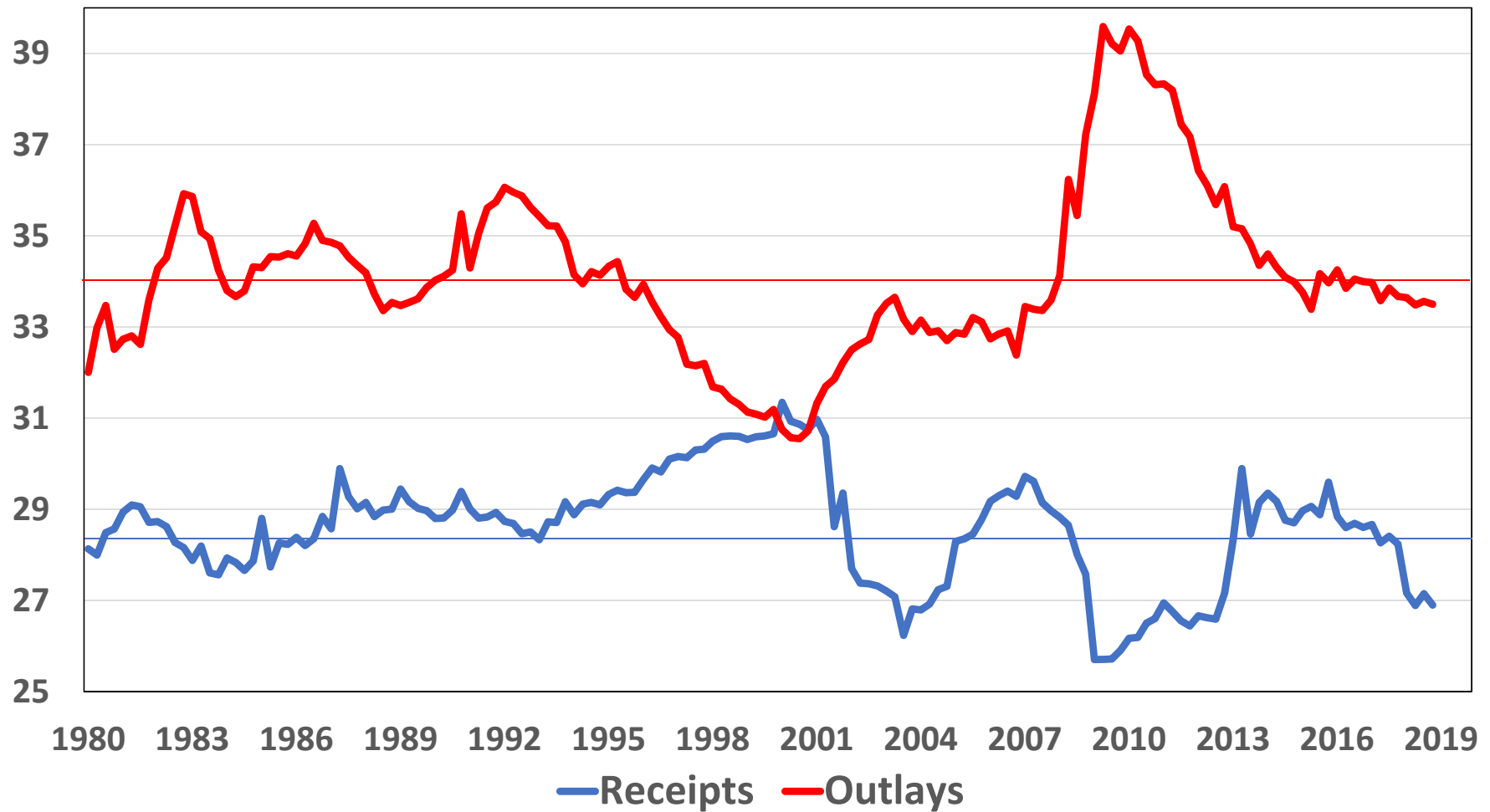
U.S. Fiscal Policy: Facts, Fallacies and Fantasies

Presentation by Martin Barnes, Chief Economist, BCA Research

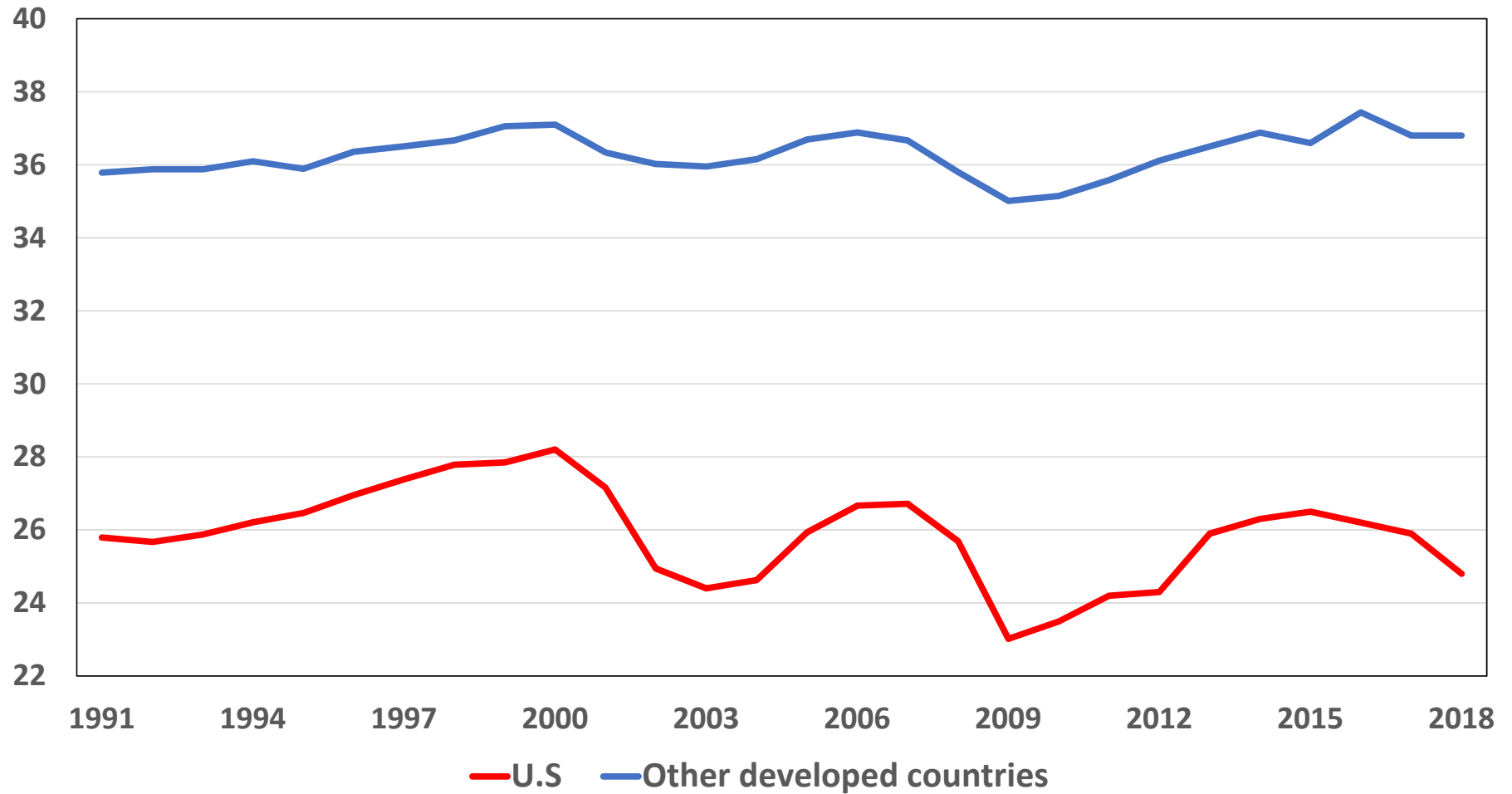
April 5, 2019

Men's Republican Club of Collier County

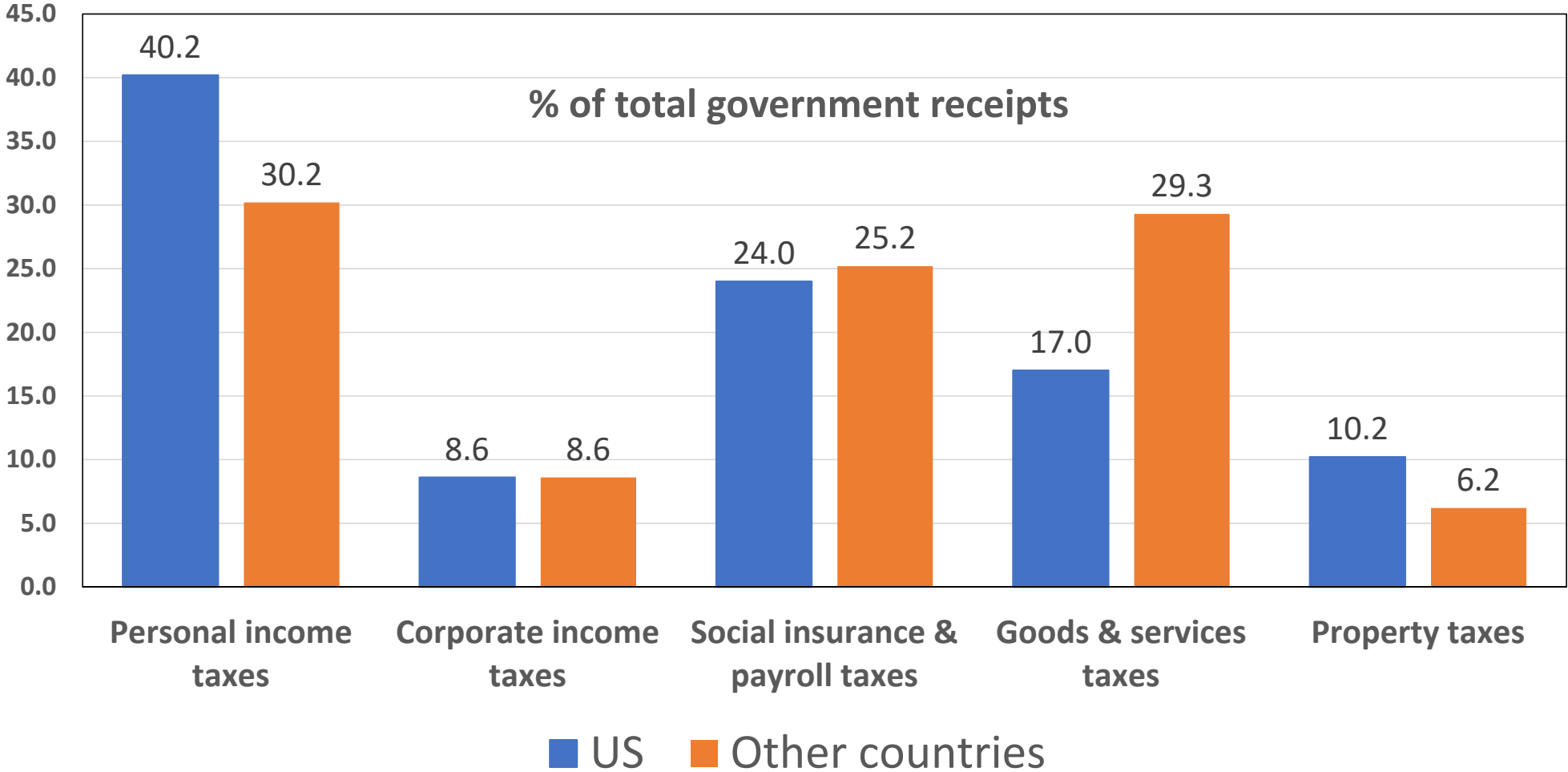
U.S. Government Receipts & Outlays as % GDP



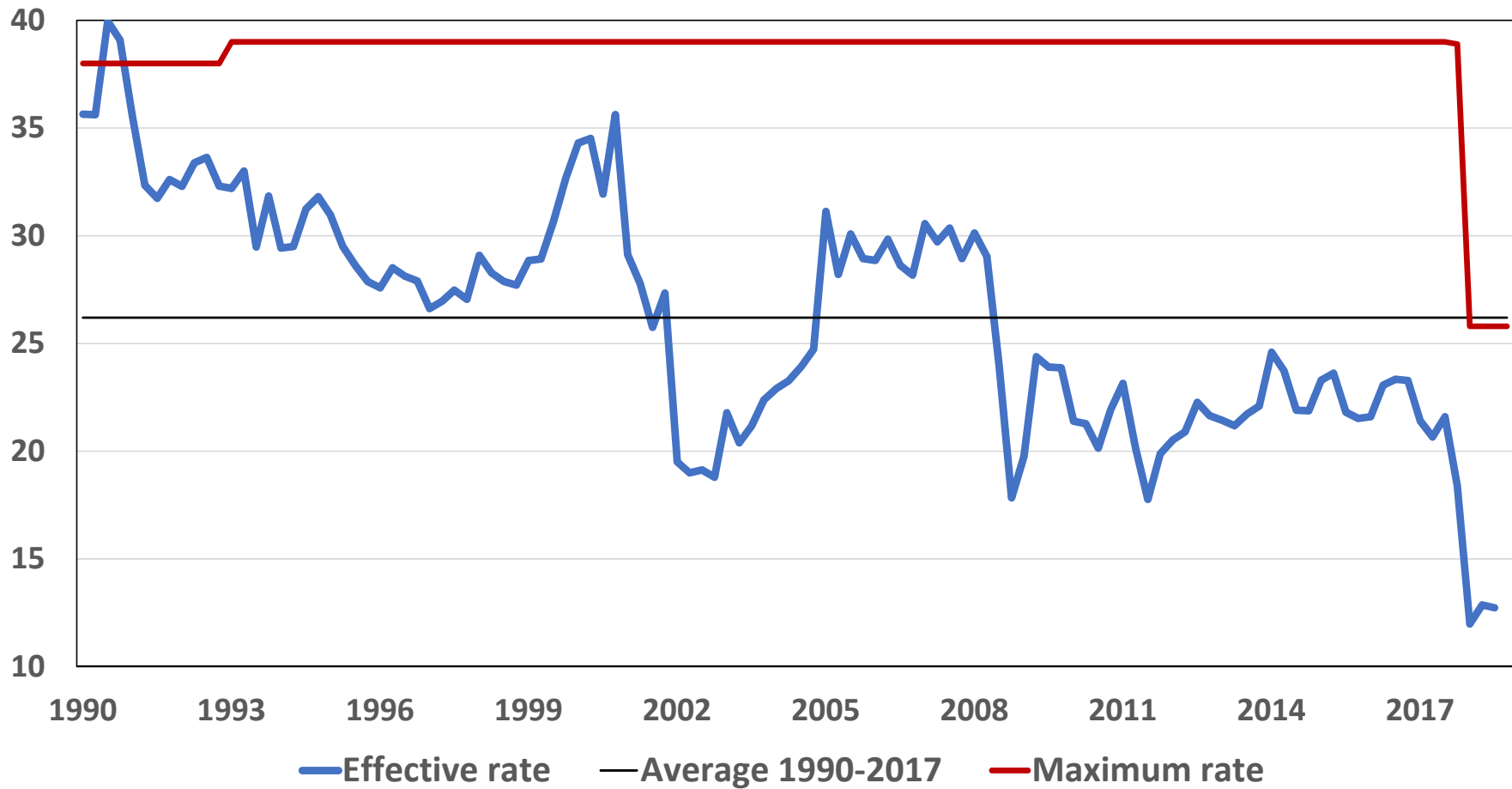
Total Government Taxes as % GDP



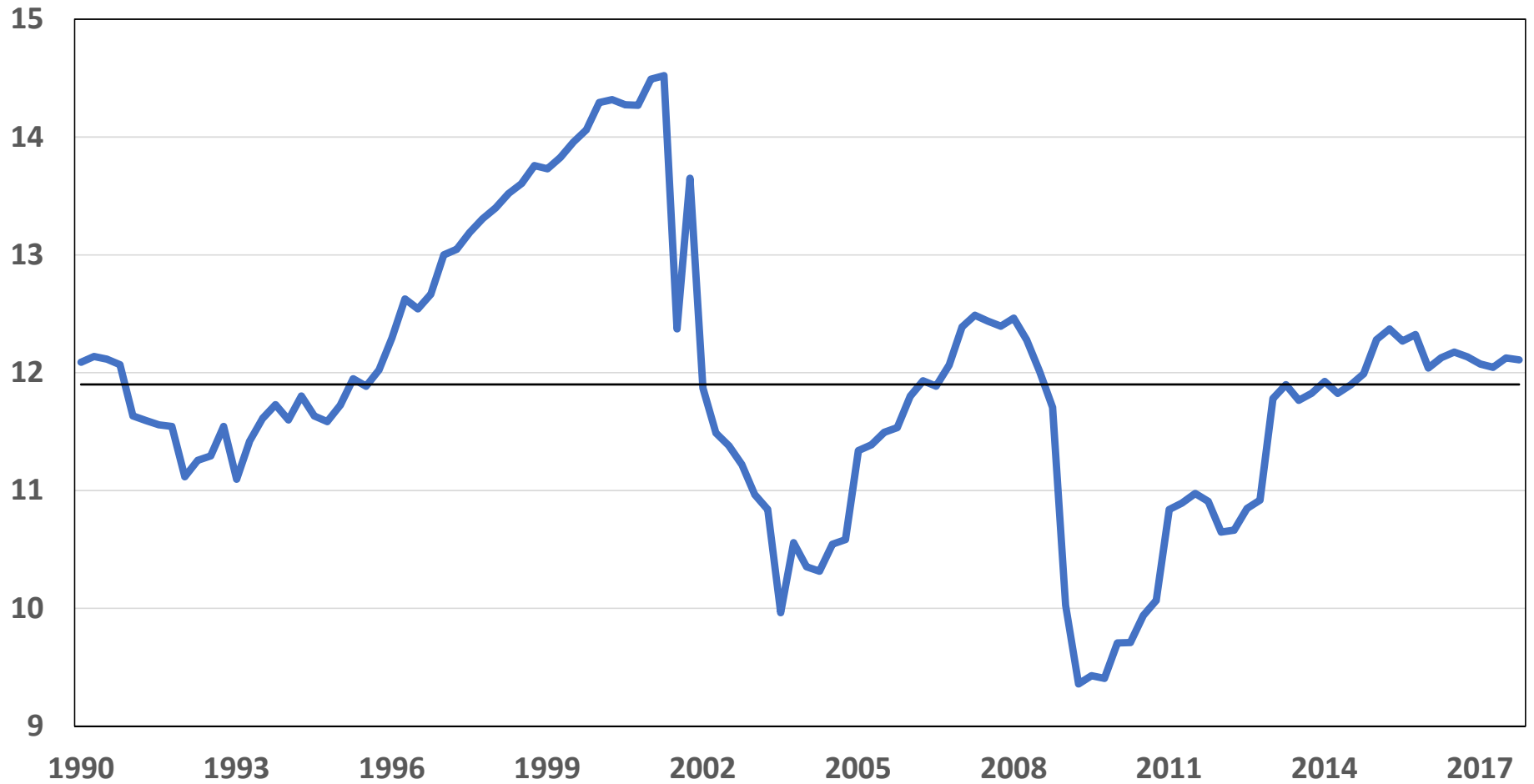
Sources of Government Revenues



Tax Rate for Non-Financial Corporations



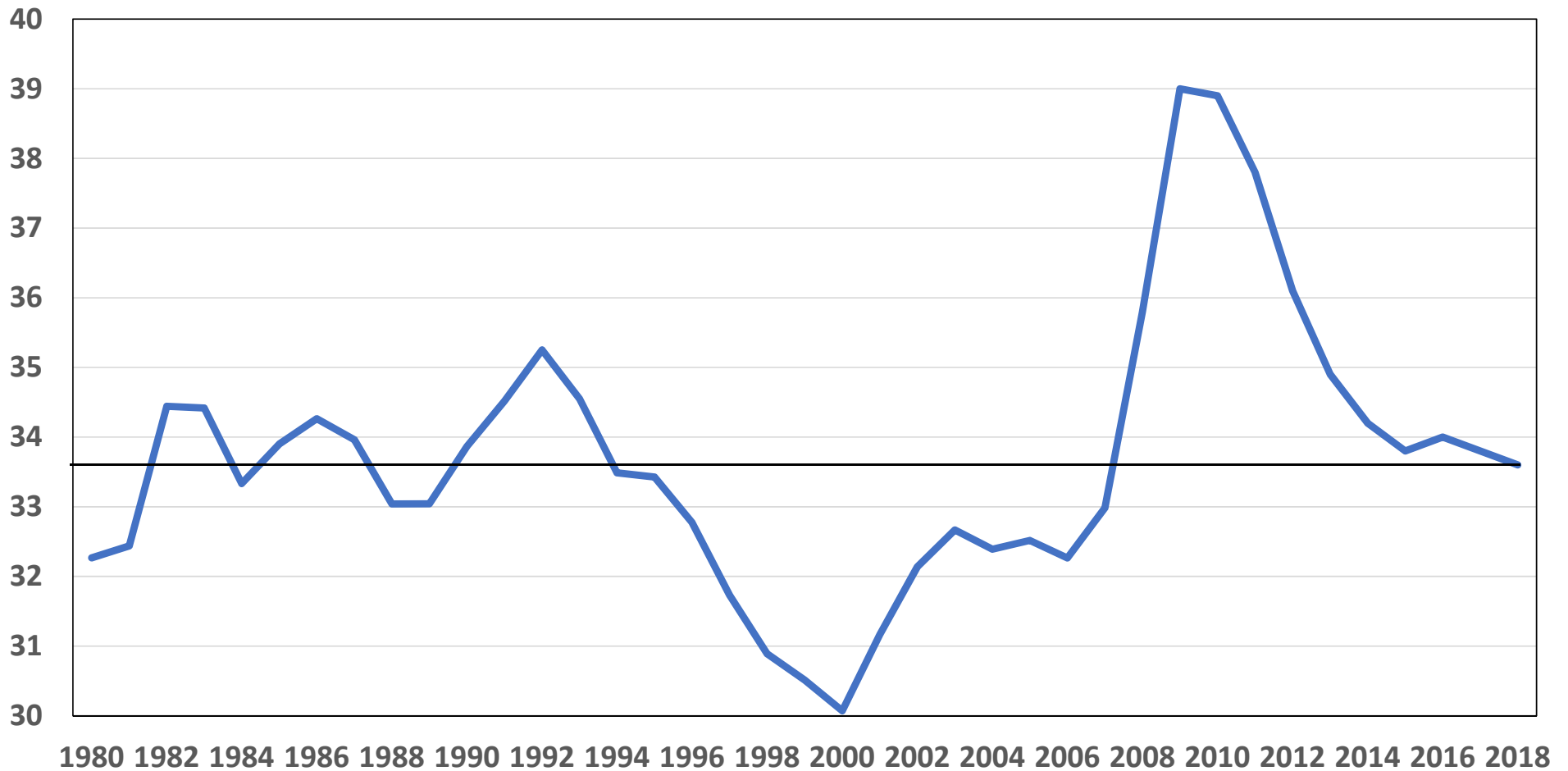
Effective Personal Tax Rate



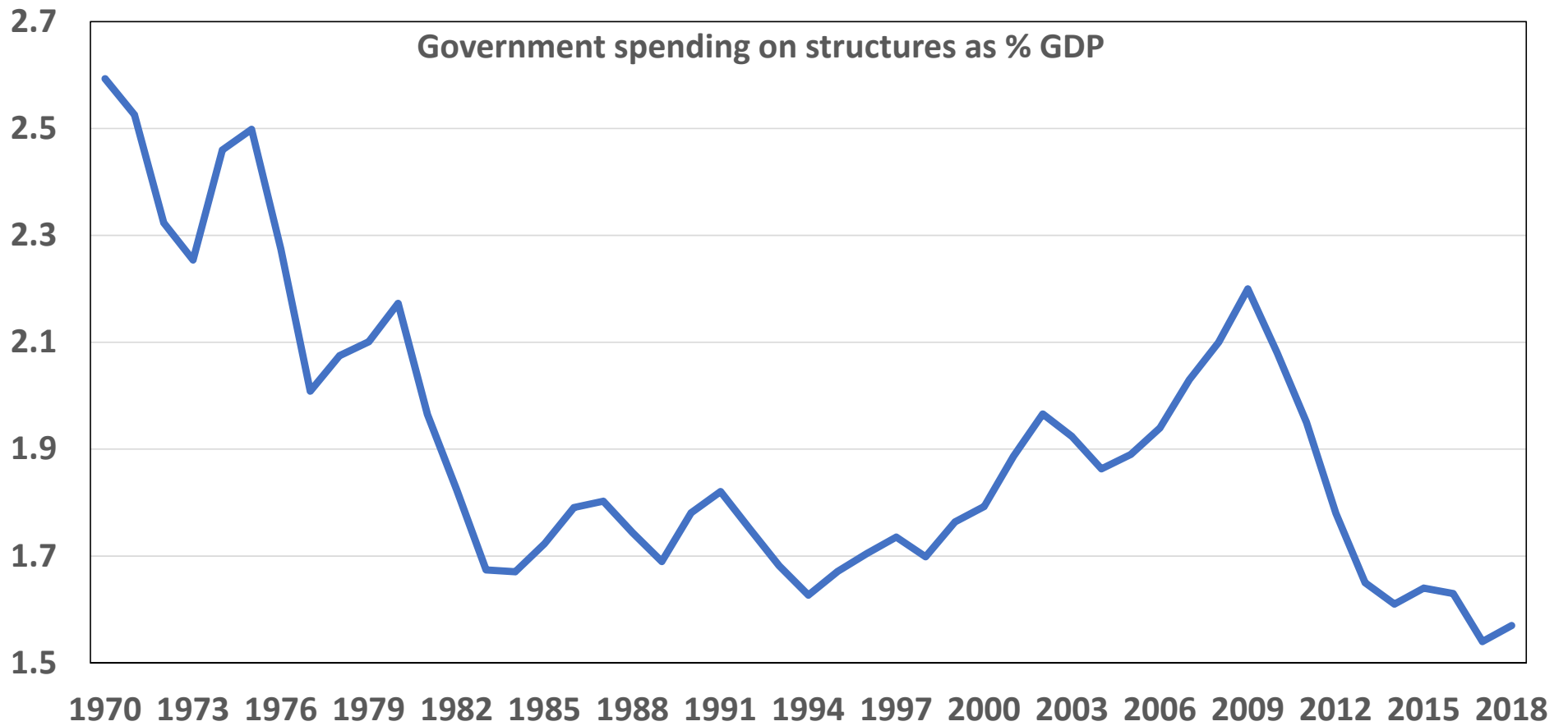
The Skewed Nature of Federal Income Taxes

	% of total		
Annual income (2016)	Number of taxable returns	Total gross income	Federal taxes paid
Under \$50,000	42.9	12.9	5.5
\$50,000 to \$100,000	31.6	23.6	14.7
\$100,000 to \$200,000	18.7	26.5	22.5
\$200,000 to \$1 million	6.5	22.8	32.1
\$1 million and above	0.4	14.2	25.2

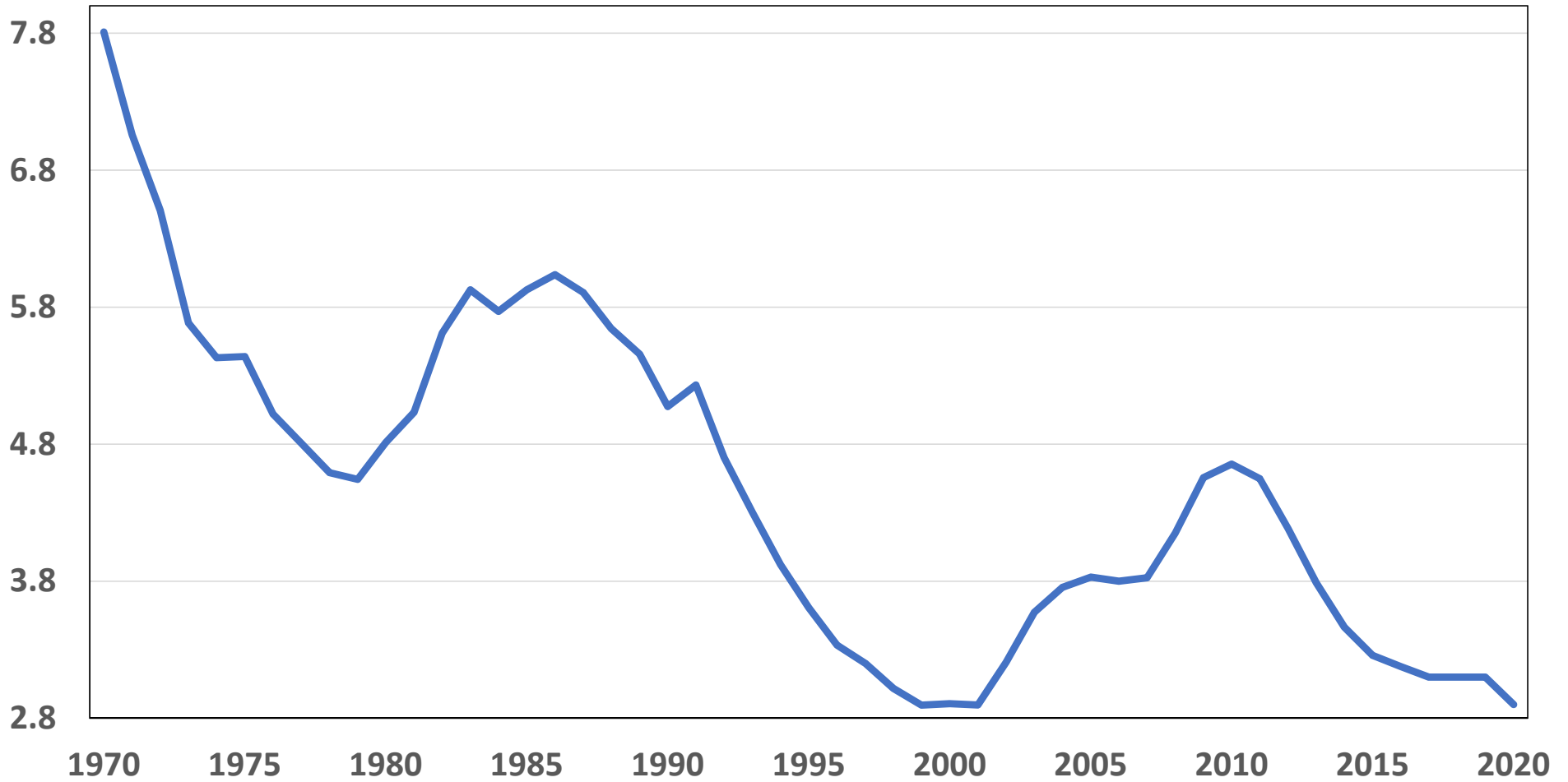
Total Government Spending as % GDP



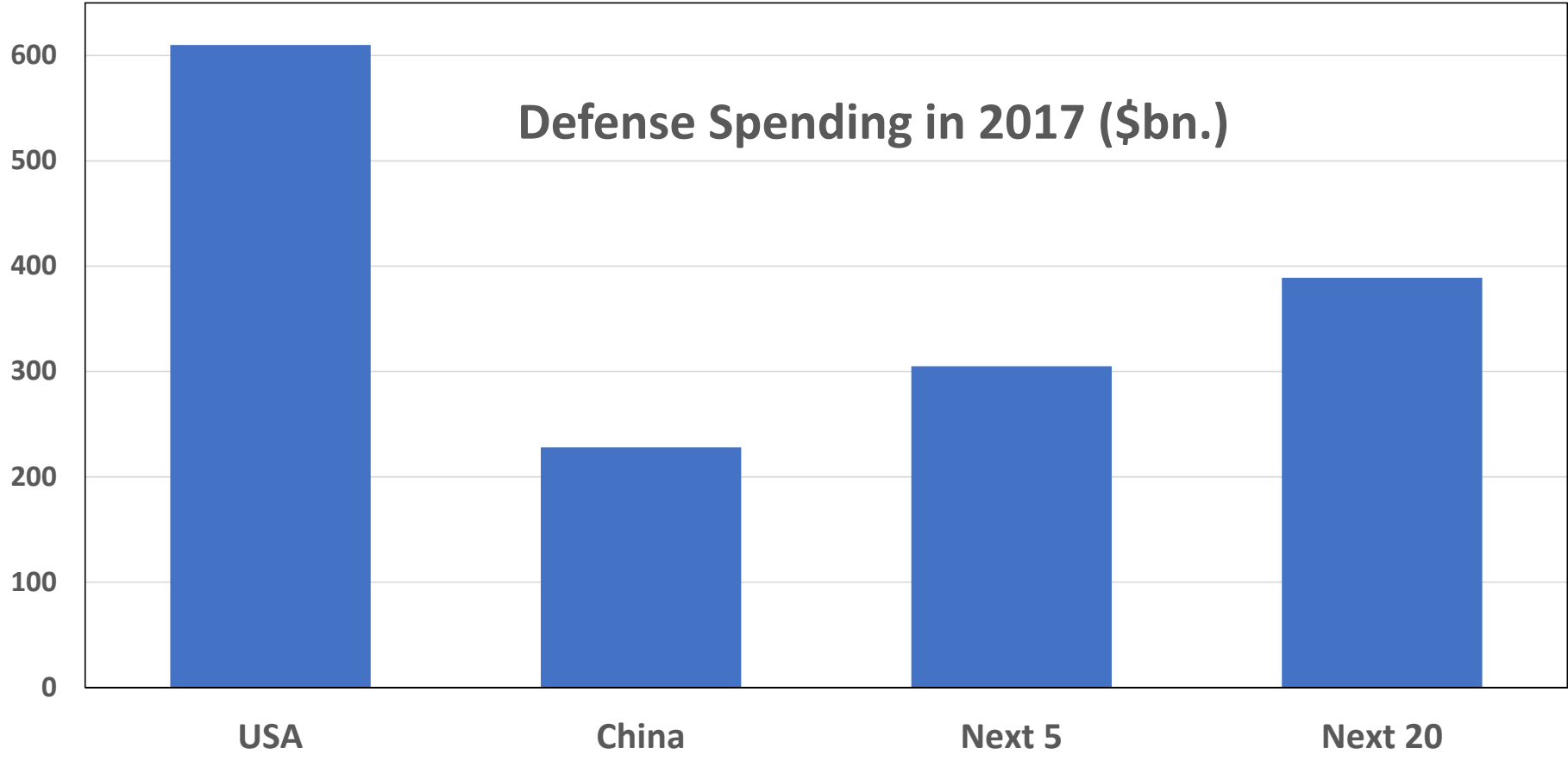
More Infrastructure Spending Is Needed



U.S. Defense Spending As % GDP

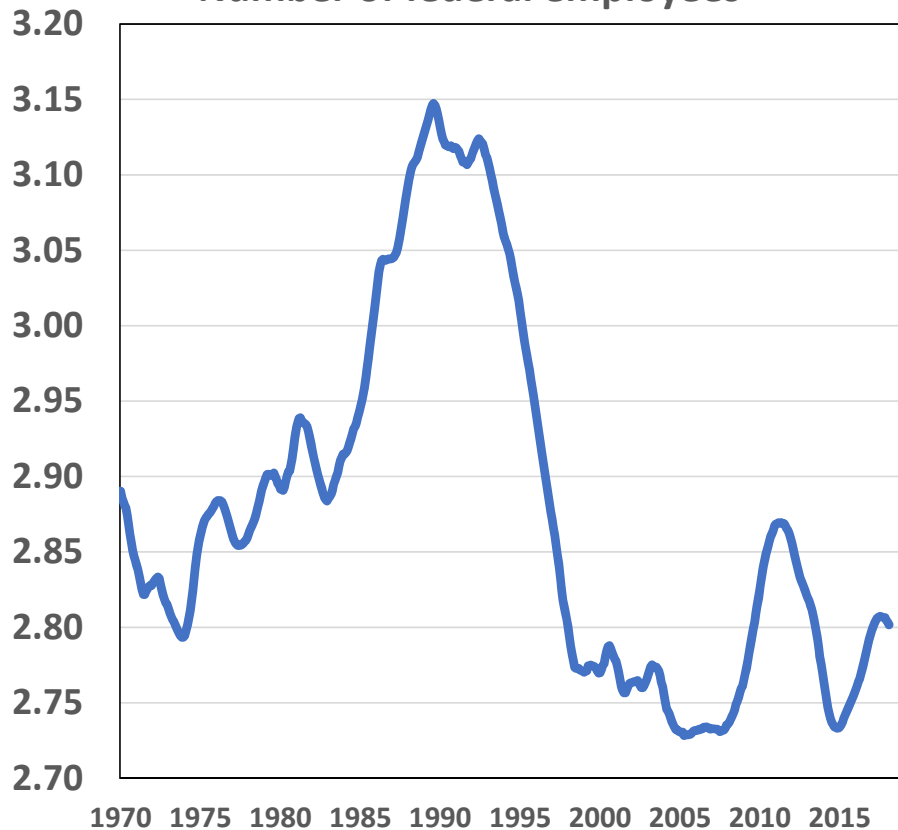


An International Comparison of Defense Spending

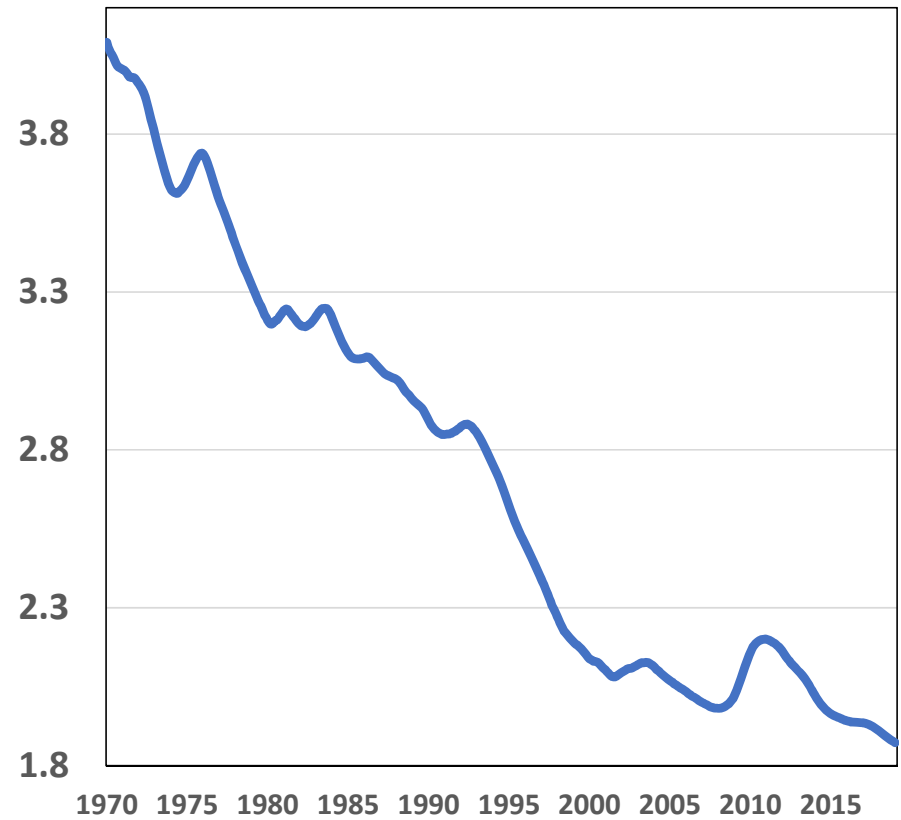


Is The Federal Government Overstaffed?

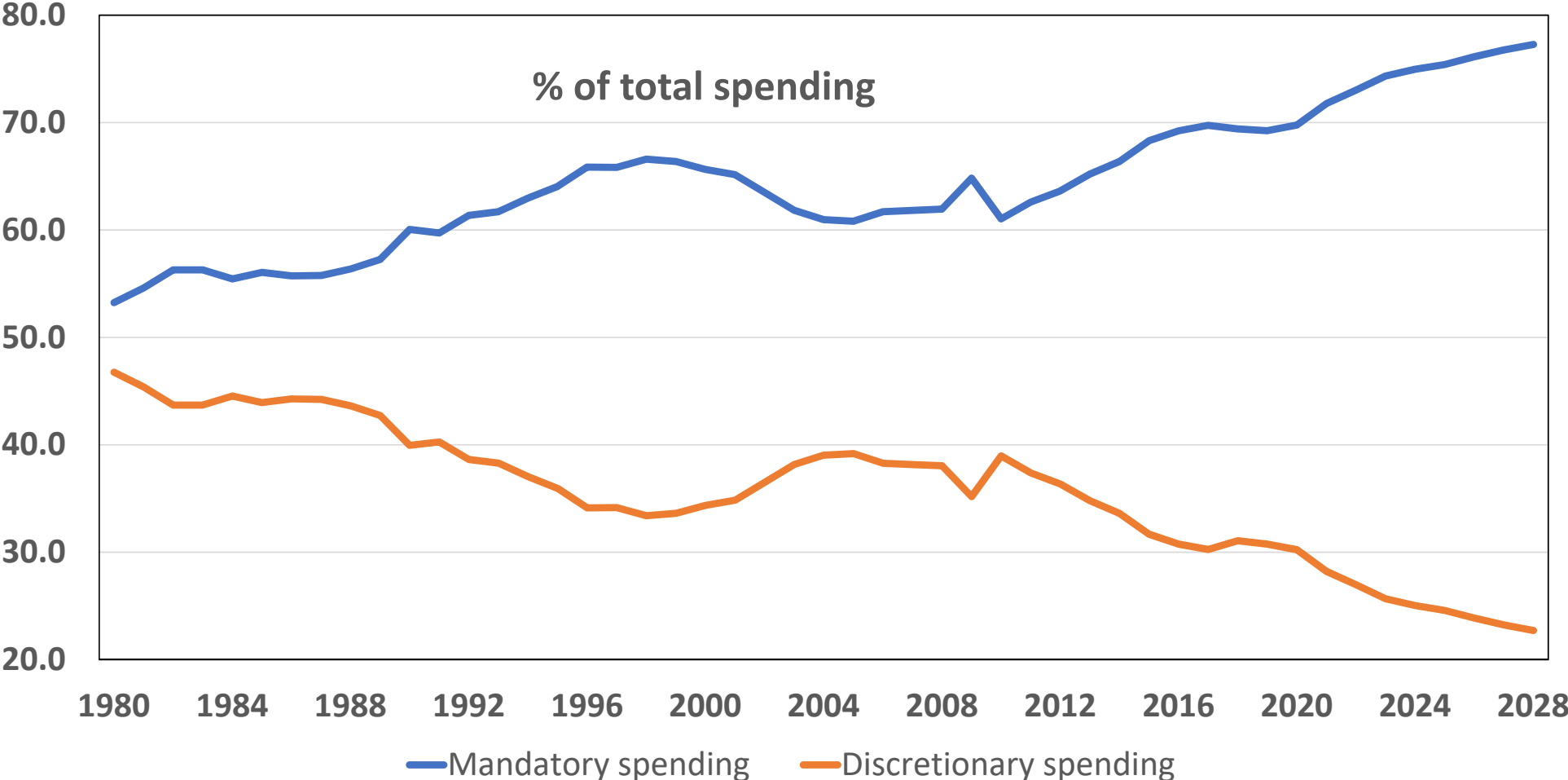
Number of federal employees



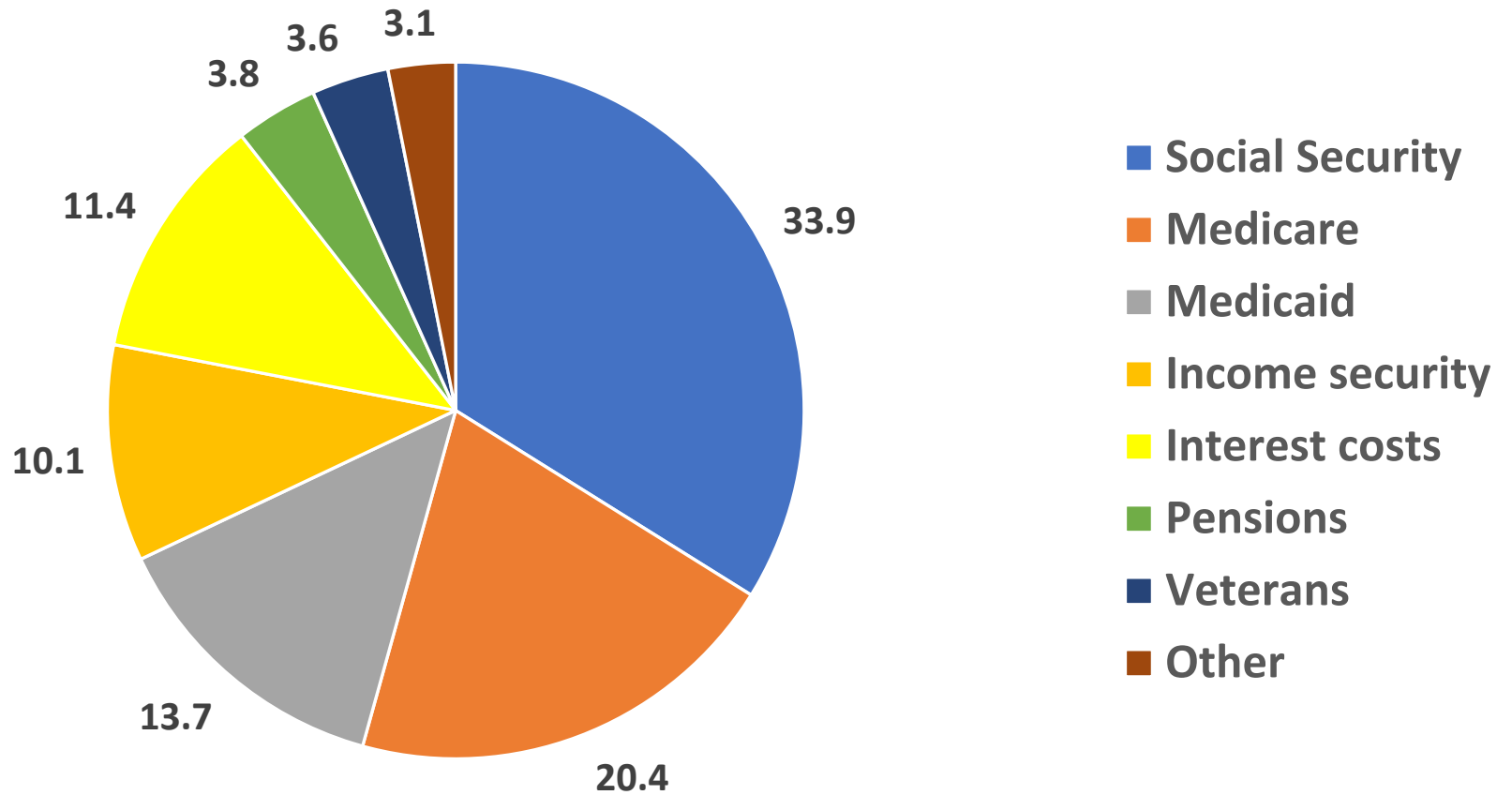
As % of total employment



The Spending Problem



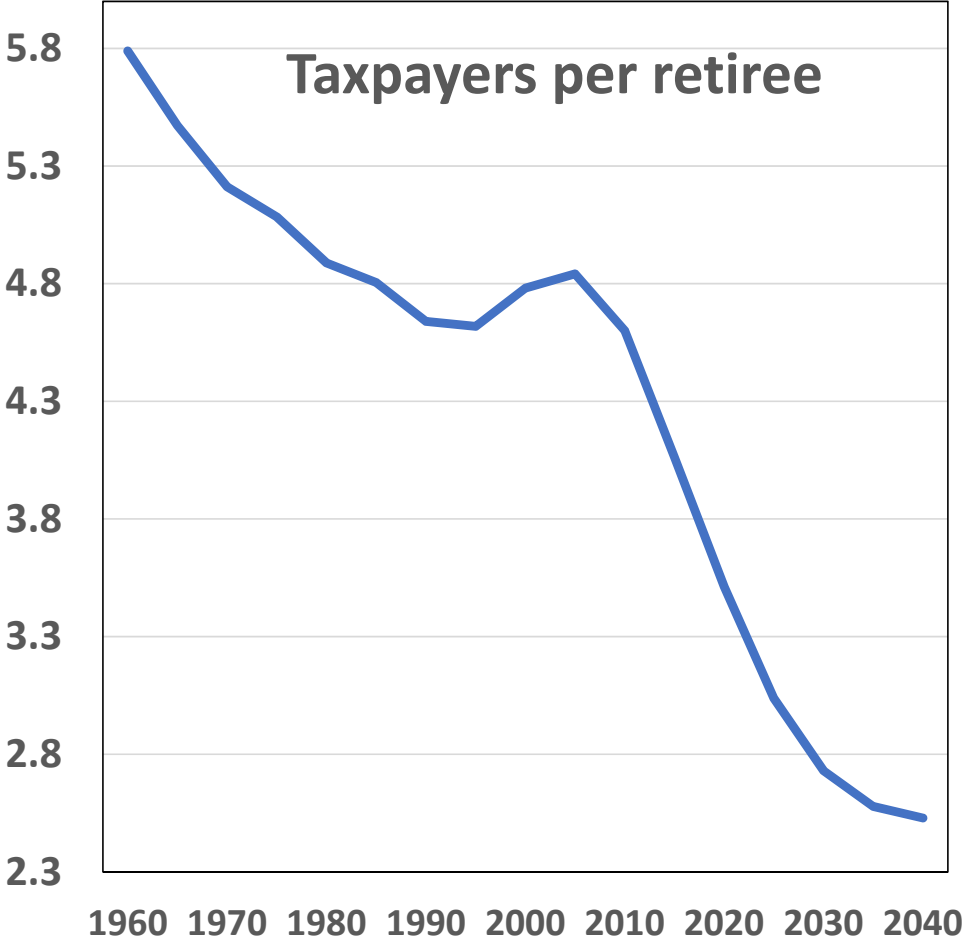
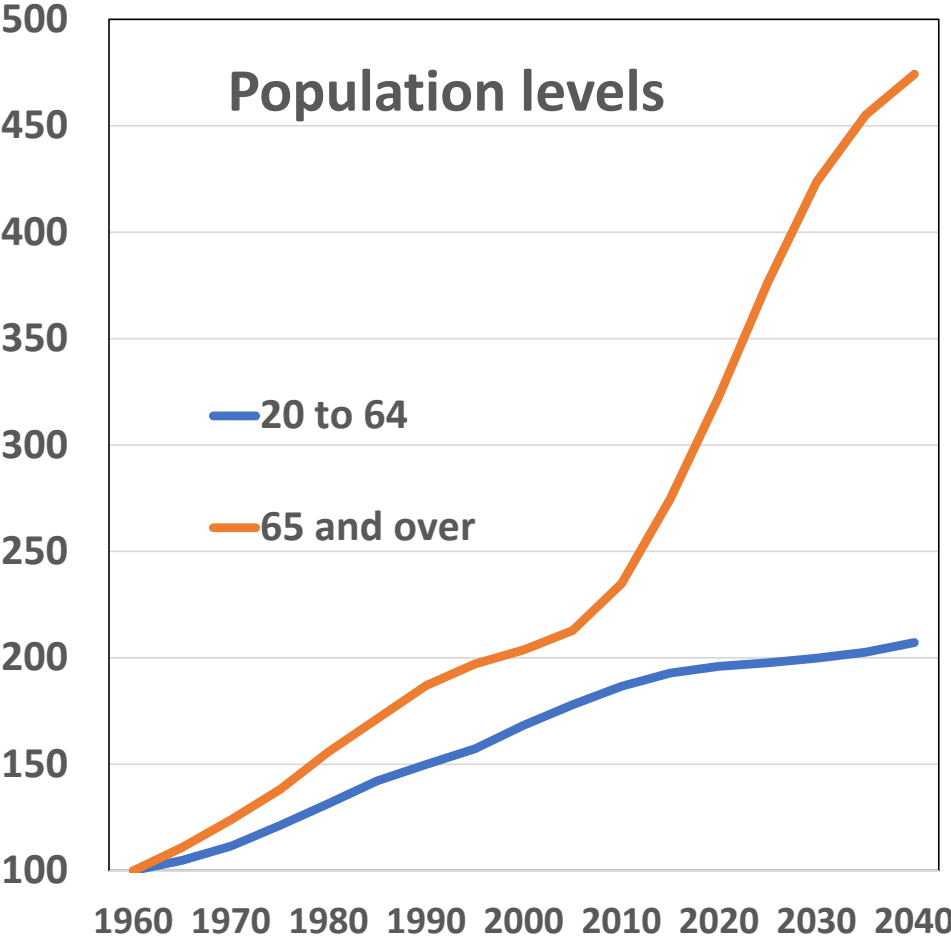
The Breakdown of Mandatory Spending (2018)



Entitlements Are Unsustainable

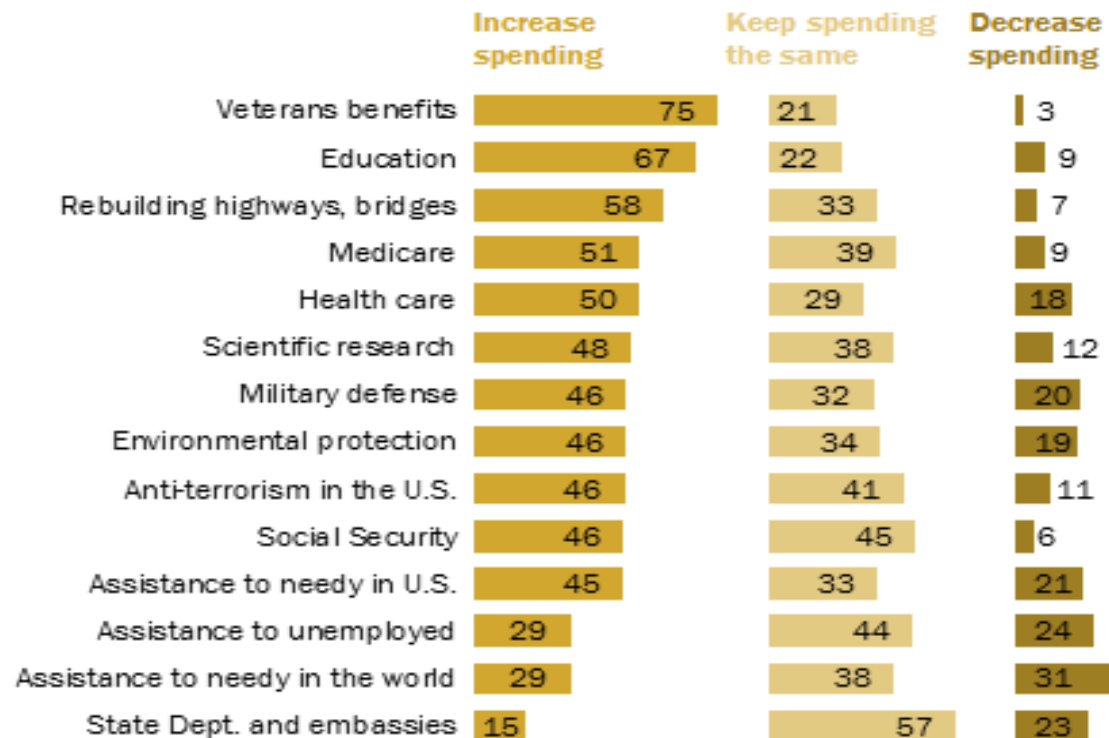


Demographics: A Fiscal Nightmare



Most want government to increase spending on veterans benefits, education and infrastructure

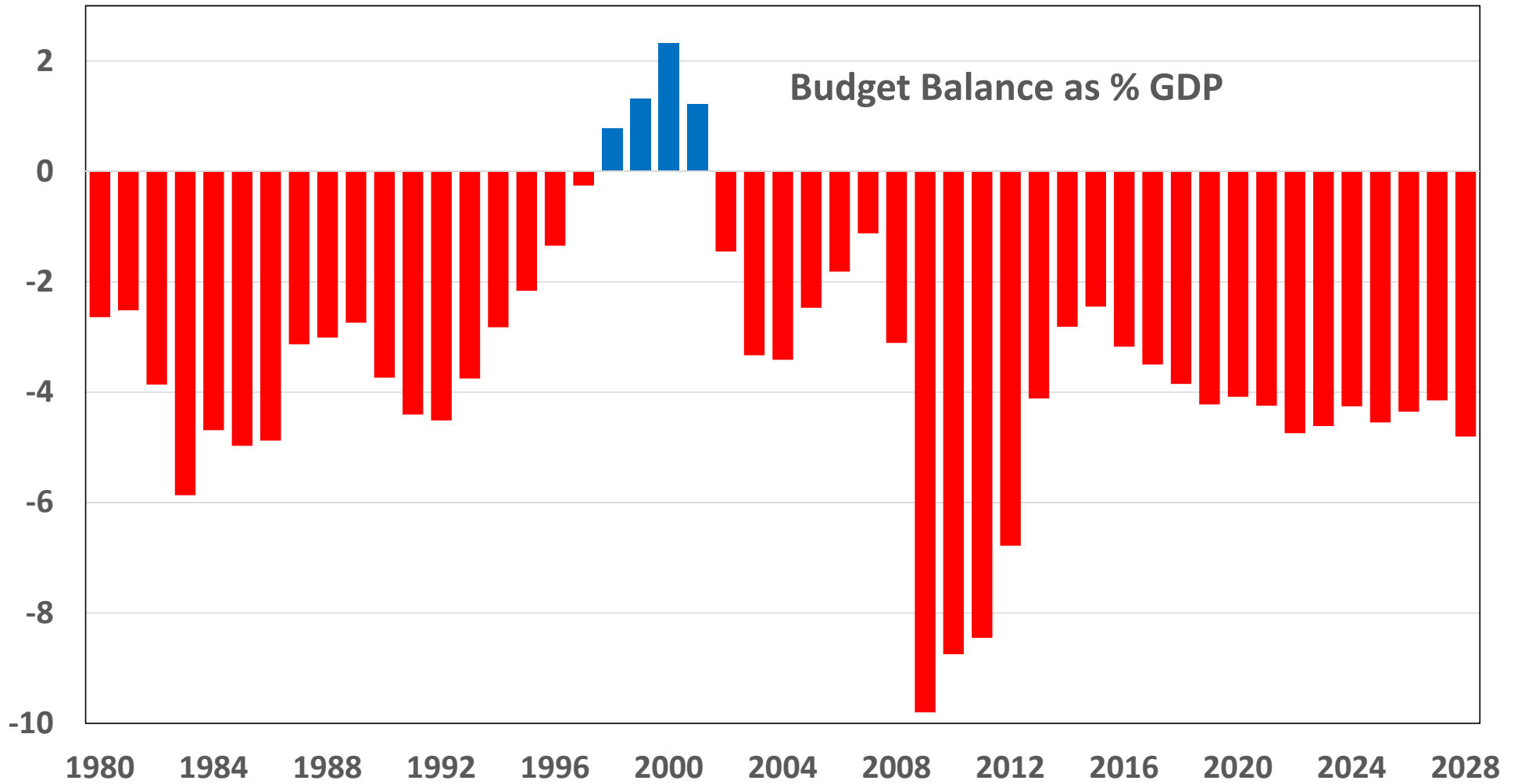
If you were making up the budget for the federal government this year, would you increase, decrease or keep spending the same for... (%)



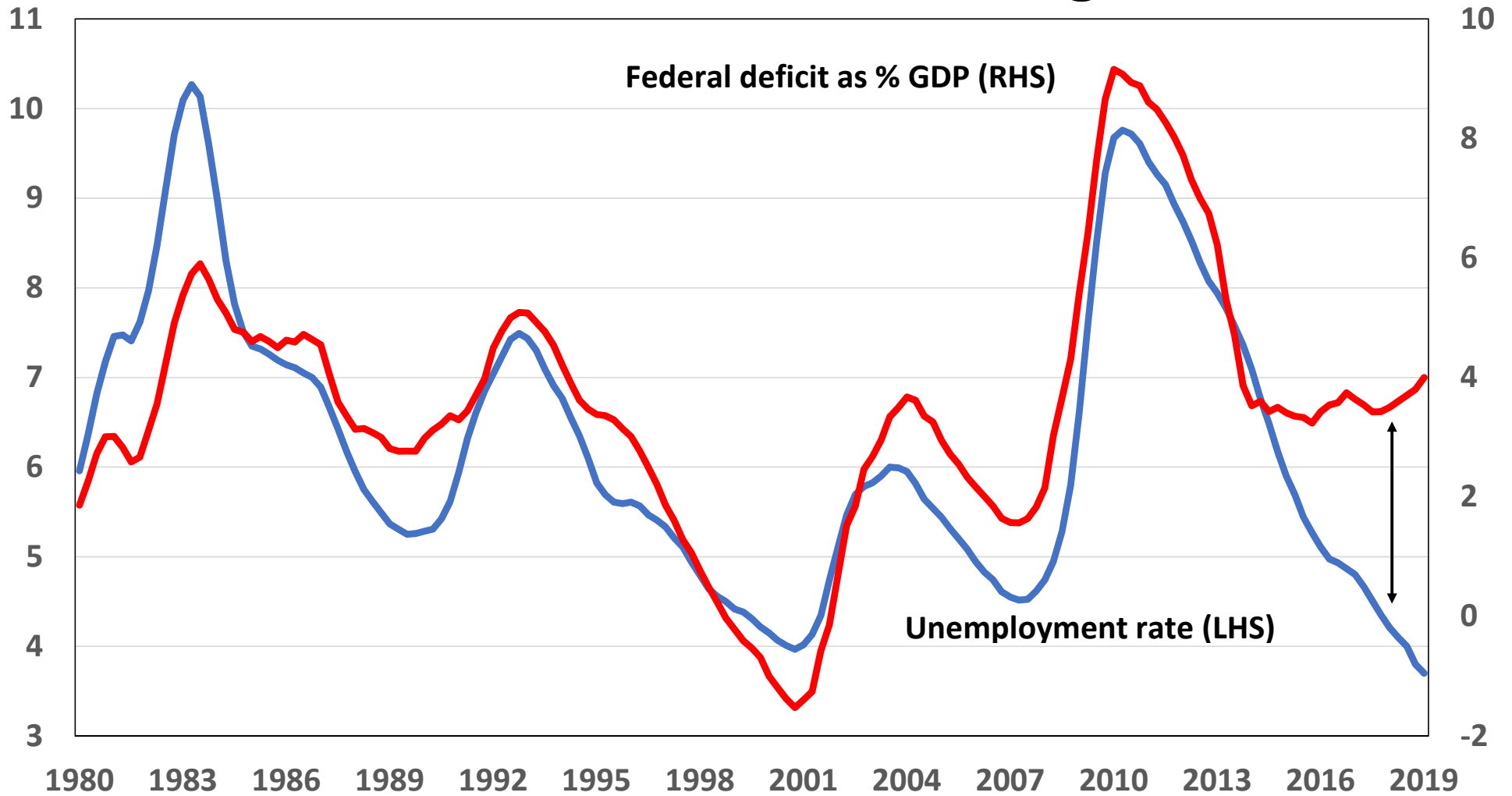
Note: Don't know responses not shown.
Source: Survey conducted April 5-11, 2017.

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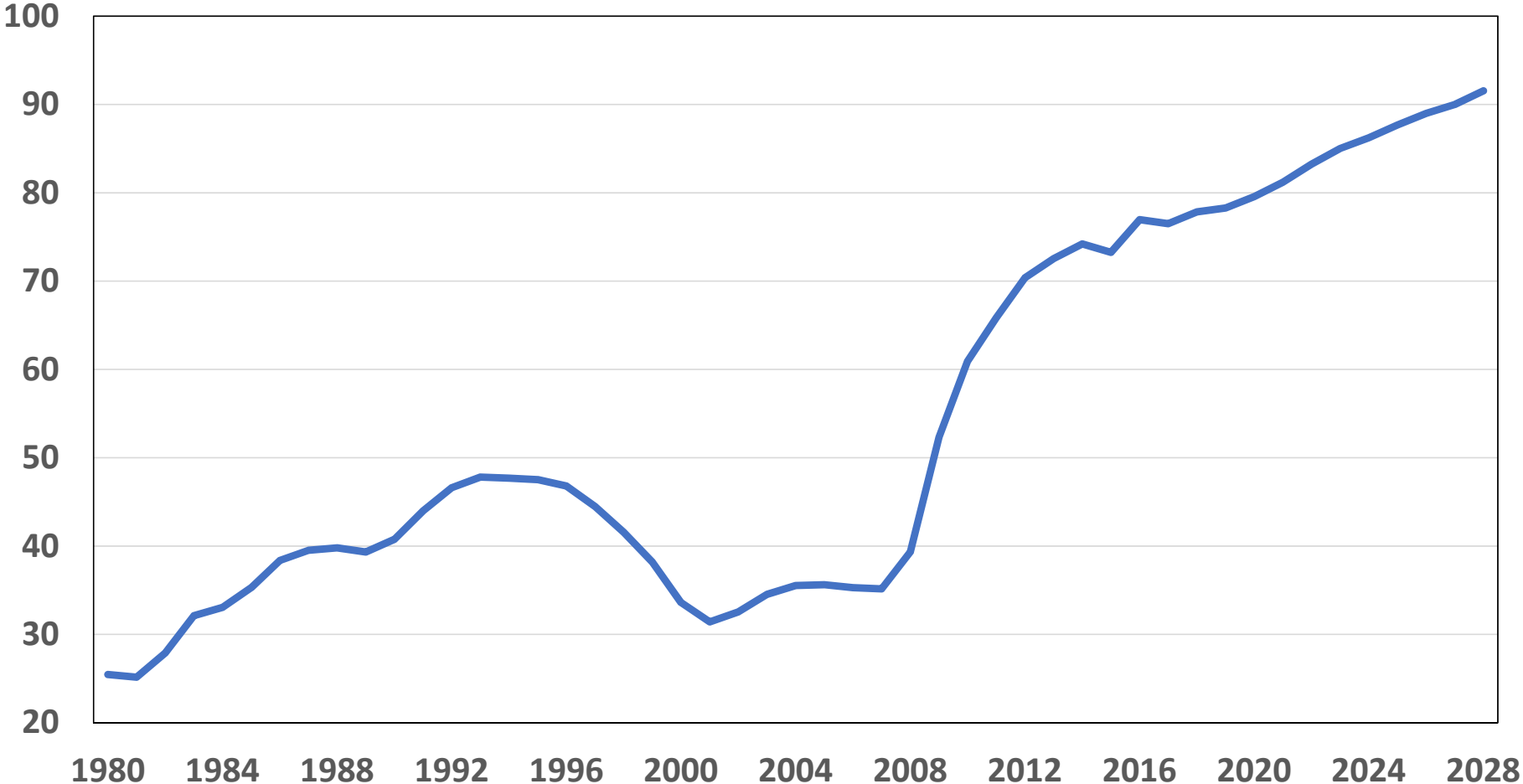
Lots of Federal Red Ink



An Unusual Time To Have Rising Deficits



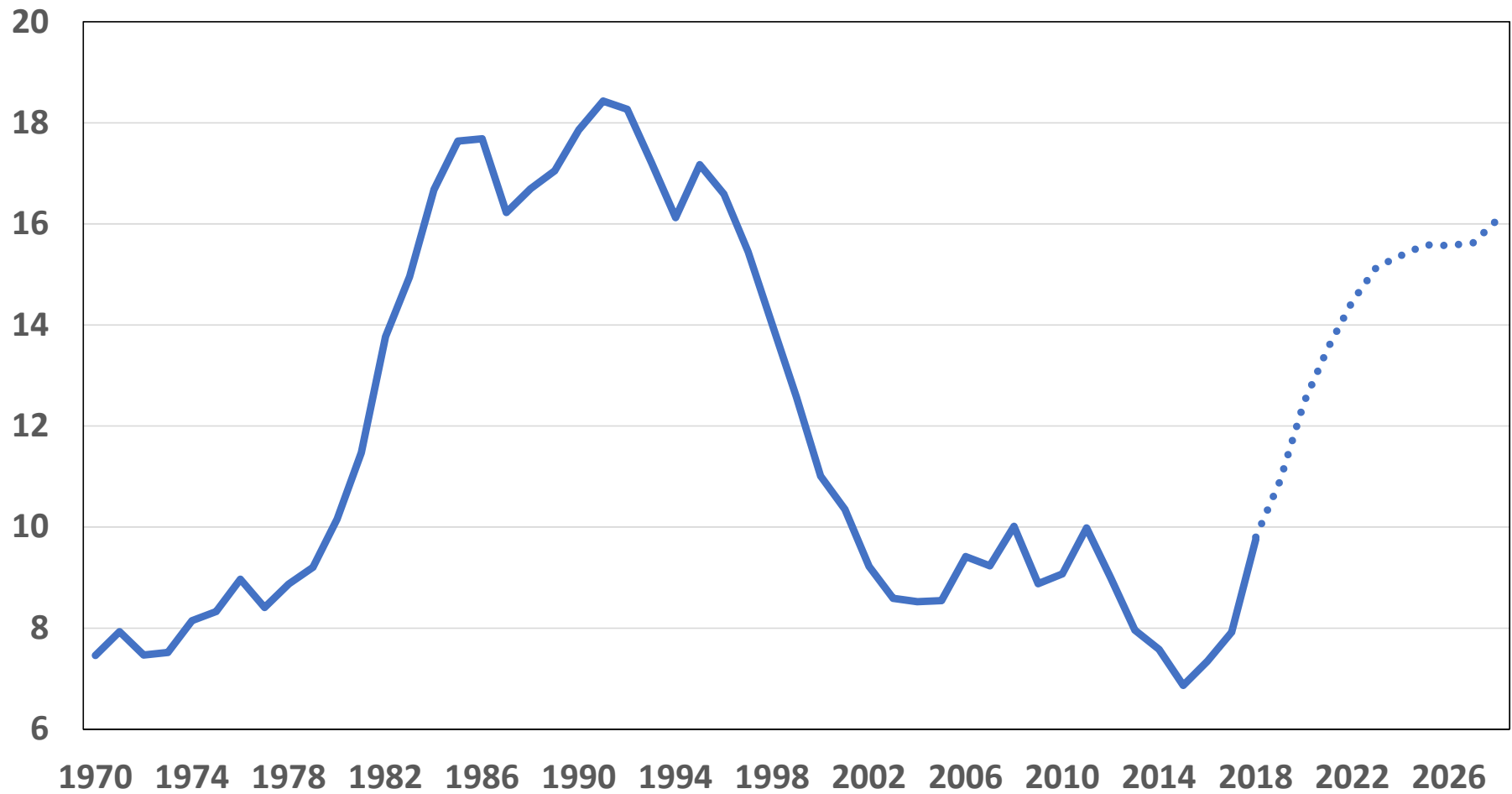
Federal Debt as % GDP



Warning Signs Of A Looming Debt Crisis

- Fears of inflation and/or default lead to a rising risk premium on interest rates and a falling exchange rate
- A rising share of public debt has to be funded short term and/or in foreign currencies
- The government exhausts its ability to raise tax burdens
- Interest payments account for an increasing share of government revenues and it requires tough budget action merely to stop the deficit from rising
- Political shifts occur as governments get blamed for eroding living standards, high taxes and continued pressure on spending

Net Interest Costs As % of Revenues



Debt End Points

- The economy can grow out of it or the government can restore the budget to surplus. These are the only good outcomes.
- The authorities can try to inflate the debt away. But the markets will resist this.
- The government can default on its debt. This is a last resort outcome.
- The government can pursue financial repression to make the debt easier to finance. But this can't last indefinitely.

A Sobering Quote

A democracy cannot exist as a permanent form of government. It can only exist until a majority of voters discover that they can vote themselves largess out of the public treasury.

Alexander Tytler, 18th century Scottish historian, quoted by P.J. O'Rourke in his book Parliament of Whores.