

Talking Points

Assistant Vice President and Economist Bill Emmons examined the question on whether the United States can achieve long-run fiscal sustainability and what, if any, significant policy changes will need to be taken as the country faces slow economic growth, high debt and a future of rising health care and retirement costs.

Emmons talking points included:

- Federal non-defense spending to GDP ratio has quadrupled since 1945
- Forecasts expect this trend to continue
- Largest single budget item is social security followed by health programs such as Medicare and Medicaid
- Defense spending has actually fallen from its high during World War II (there is not much more to cut)
- Meanwhile, revenue has been flat – from end of World War II to the present (15%-20% of GDP range)
- If trend continues (large increases in non-defense spending combined with flat revenues), budget deficits will explode
- Has consequence – federal debt held by the public will reach dangerous levels and is on the path to unsustainable levels (more difficult to finance and investors would not be interested)
- Bill’s question to the audience: Can we achieve long-run fiscal sustainability?
- Under current circumstances, Bill felt that we cannot get the deficit under control unless changes are made
- His reasons included: the fact that neither political party nor the public are willing to address political and economic reality, the welfare state is extremely popular and cannot be significantly curtailed through democratic means and the tax revenues needed to pay for the welfare states are neither politically nor economically feasible under the current tax system

The only plausible way to achieve long-run fiscal sustainability according to Emmons was to make difficult reductions in popular spending programs and explore comprehensive tax reforms. For example, shifting burden away from income taxes towards various types of sales taxes and even exploring taxes on “bad” things such as pollution.

A live webcast of the first *Dialogue with the Fed* of 2013 took place on April 8, 2013 from 6 p.m. – 7:30 p.m. The webcast can be viewed at stlouisfed.org/live.

Following his talk, Emmons was joined by Kevin Kliesen, Research Officer and Economist, as they took part in an in-depth discussion of the topic and took questions from the on-site audience. Julie Stackhouse, Senior Vice President of Banking Supervision and Regulation moderated the discussion and the question-and-answer session.