

2013 Dialogue With the Fed

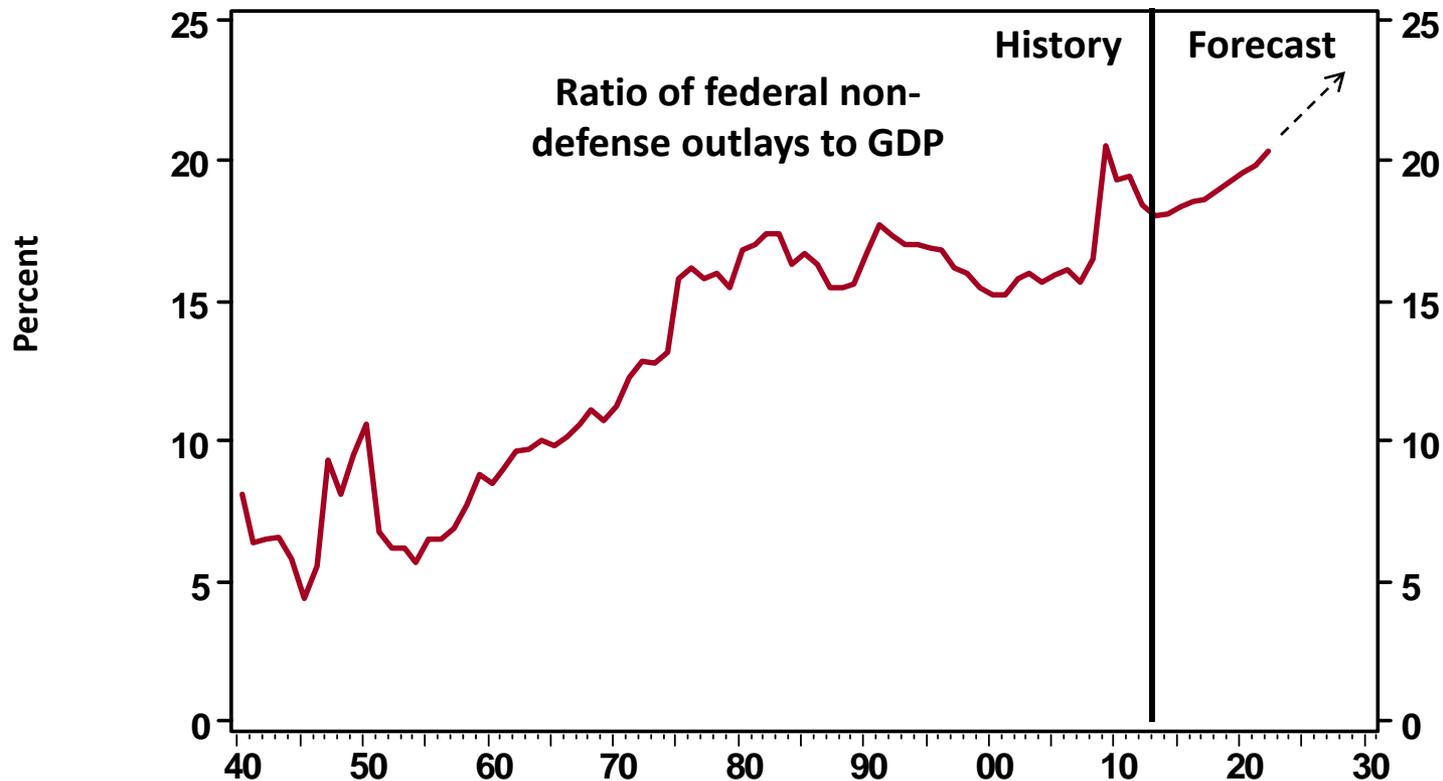
- What: A public discussion of the long-run fiscal challenges we face, led by Bill Emmons
- Why: To enhance public understanding of key issues in today's financial headlines
- When: Monday, April 8, 2013, 6:00 to 7:30 pm, CDT
- Where: Streaming online at www.stlouisfed.org/live
- All previous Dialogue sessions are on-line at <http://www.stlouisfed.org/newsroom/displayNews.cfm?article=1727>



Federal Non-Defense Spending-to-GDP Ratio Has Quadrupled Since 1945

Federal Non-Defense Outlays as Percent of GDP

Percent, fiscal years



Source: Congressional Budget Office Annual data through fiscal year 2012; 2013-23 projections as of Feb. 2013

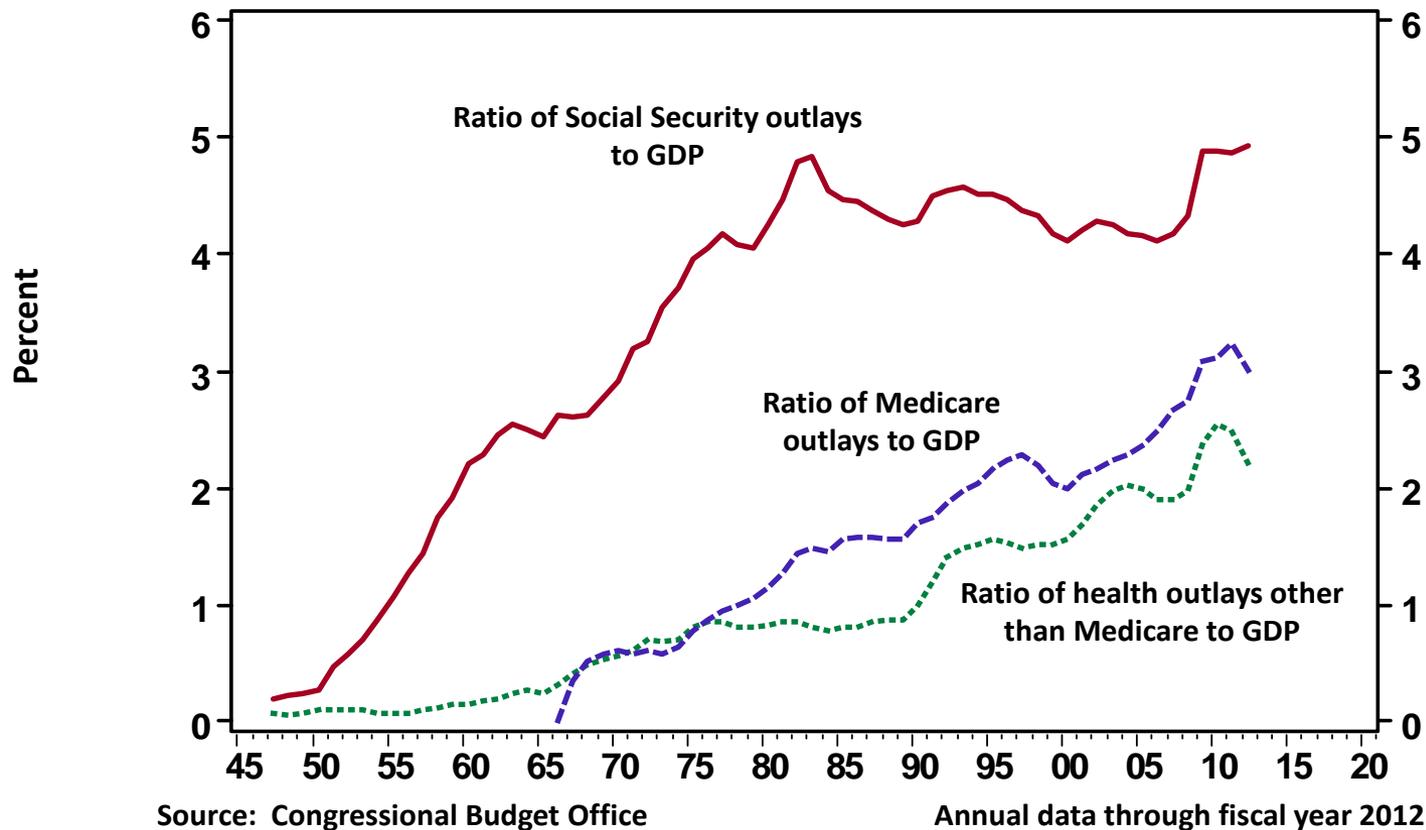


Health and Retirement Spending Increased From 0 to 10 Percent of GDP

Spending on Social Security Relative to GDP (percent)

Spending on Medicare Relative to GDP (percent)

Spending on Health Other than Medicare Relative to GDP (percent)



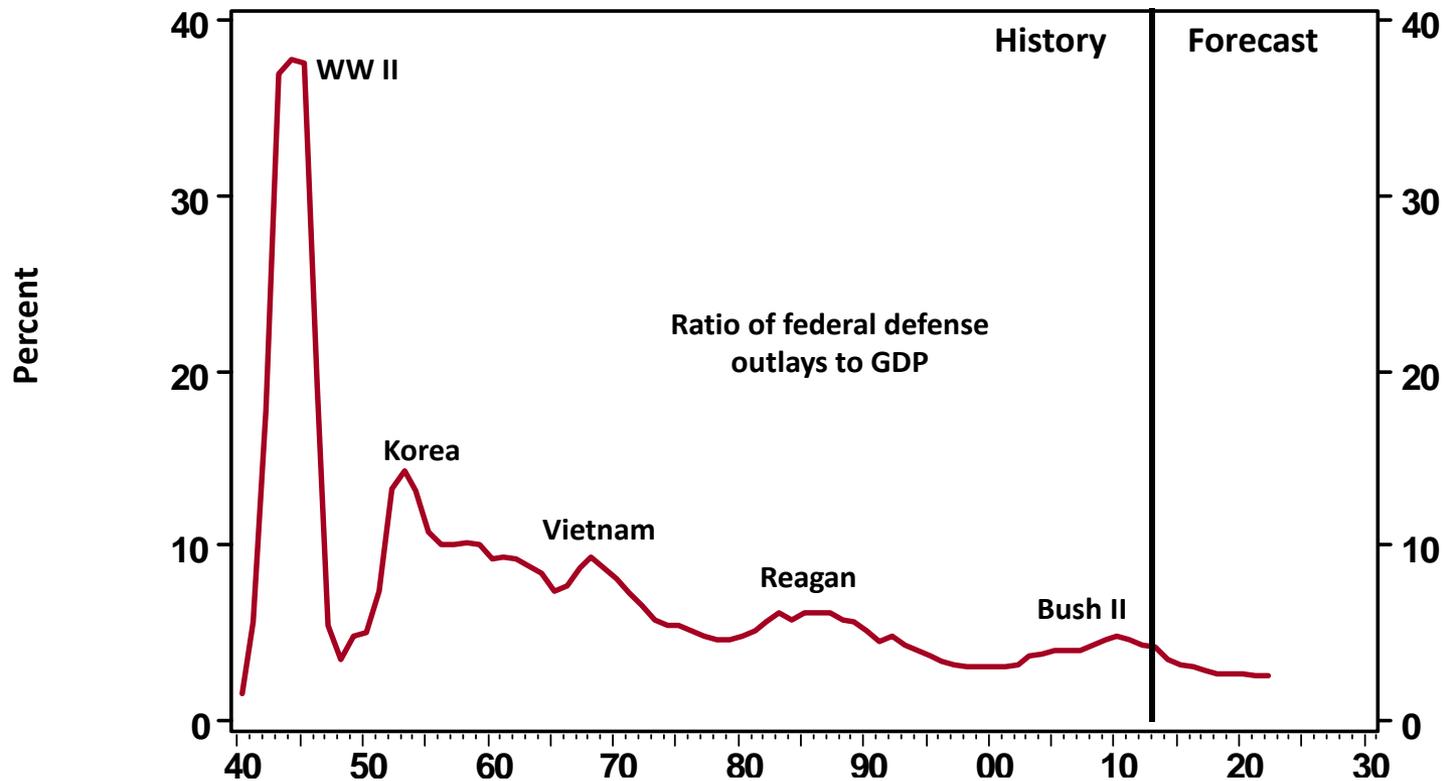
Source: Congressional Budget Office

Annual data through fiscal year 2012

Defense Spending Continues to Decline From WW II Peak

Federal Defense Outlays as Percent of GDP

Percent, fiscal years



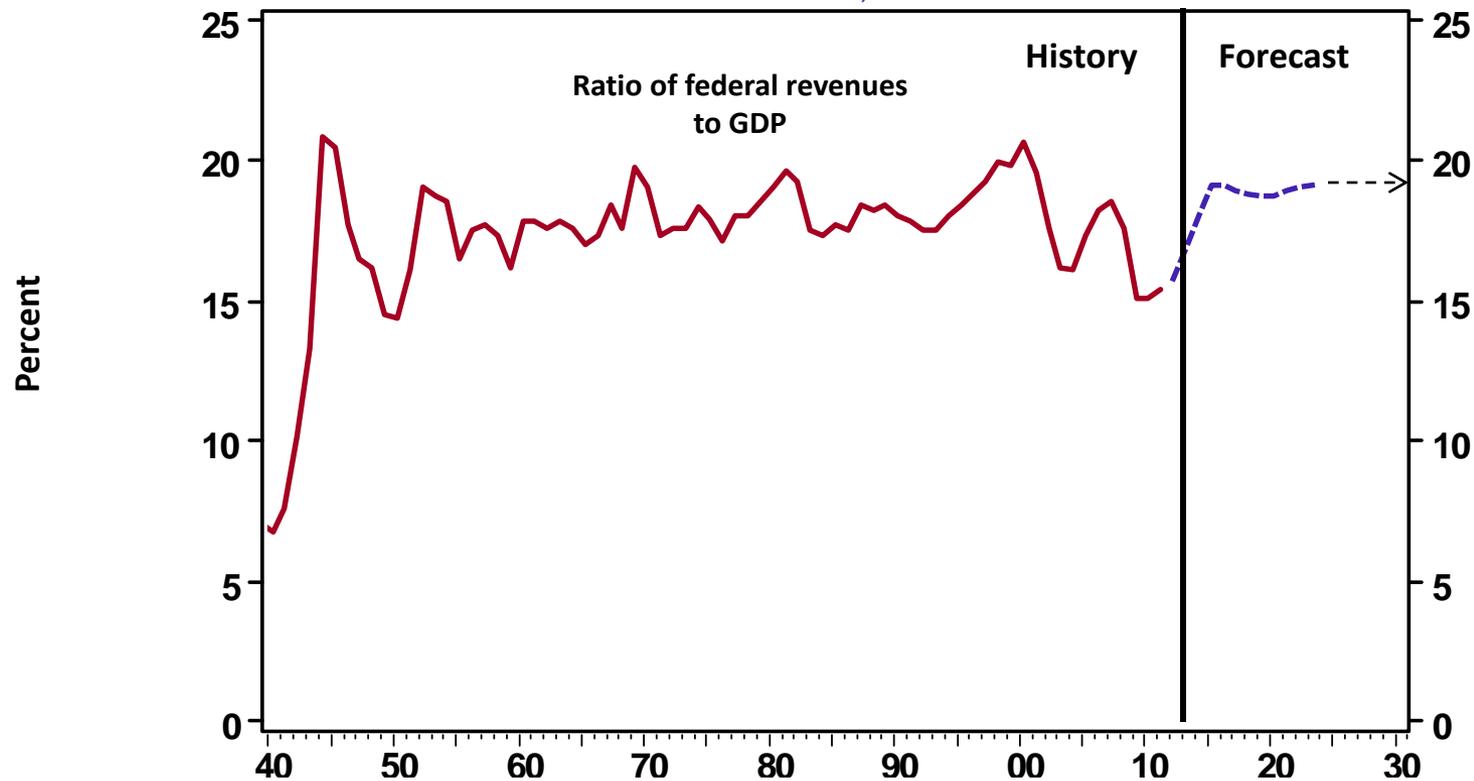
Source: Congressional Budget Office Annual data through fiscal year 2012; 2013-23 projections as of Feb. 2013



Meanwhile, Federal Revenue-to-GDP Ratio Has Been Flat Since 1945

Federal Revenues as Percent of GDP
Percent, fiscal years

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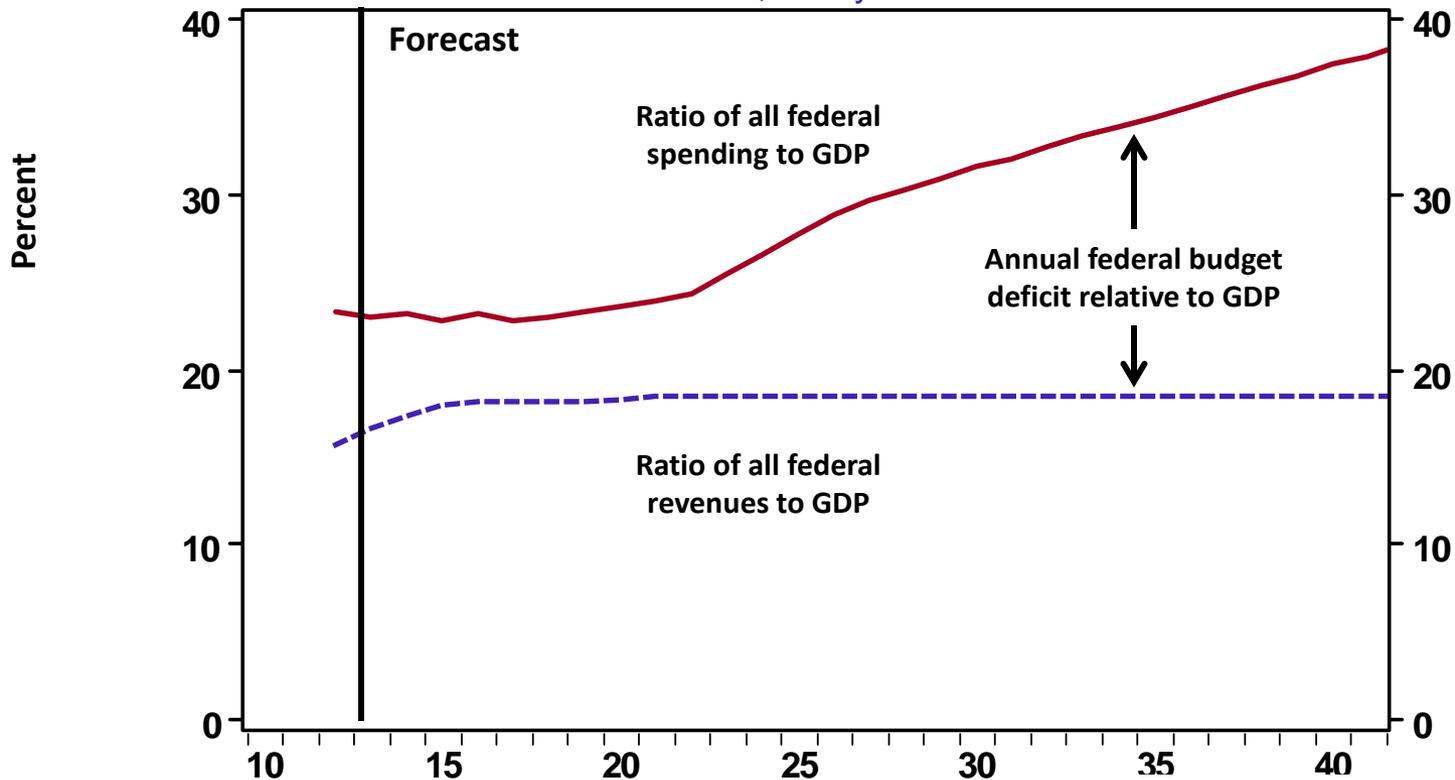
Source: Congressional Budget Office Annual data through fiscal year 2012; 2013-23 projections as of Feb. 2013



Result: If Trends Continue, Budget Deficits Will Explode...

Total Federal Outlays Relative to GDP Under CBO Alternative Scenario
Percent, fiscal years

Total Federal Revenues Relative to GDP Under CBO Alternative Scenario
Percent, fiscal years



Sources: Congressional Budget Office /Haver Analytics

Projections as of June 2012

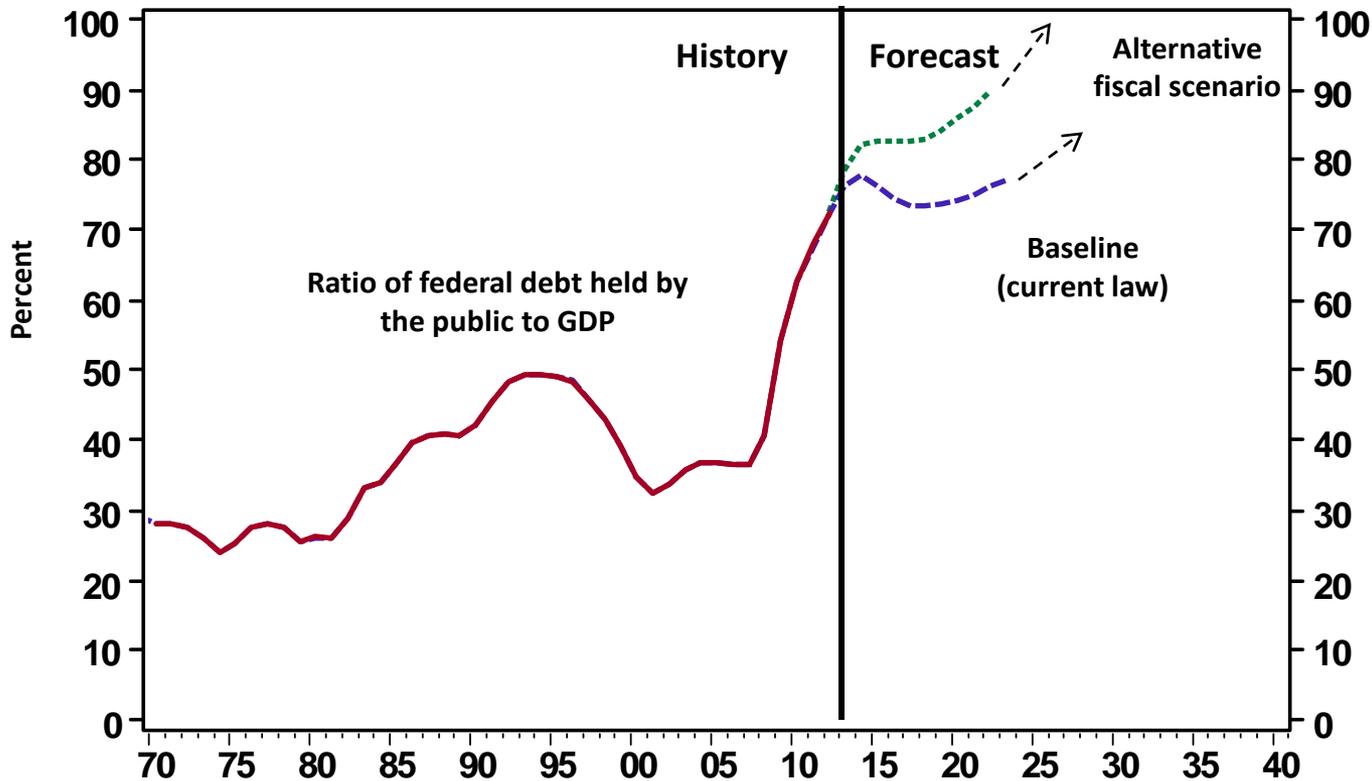


... And Federal Debt Held by the Public Will Reach Dangerous Levels

Federal Debt Held by the Public as a Percentage of GDP: 1970-2012

CBO Baseline Projection: Debt Held by the Public as % of GDP

CBO Alternative Fiscal Scenario: Debt Held by the Public as % of GDP



Both are unsustainable trajectories.

Even the CBO's best (unrealistic) fiscal scenario results in long-run disaster.

Sources: Congressional Budget Office / Haver Analytics Annual data through fiscal year 2012; 2013-23 projections as of Feb. 2013



Can We Achieve Long-Run Fiscal Sustainability?

- I doubt it under current circumstances.
 - Neither political party nor the public are willing to address political and economic reality.



Can We Achieve Long-Run Fiscal Sustainability?

- I doubt it under current circumstances.
 - The welfare state is extremely popular and cannot be significantly curtailed through democratic means.
 - Non-defense spending will continue to rise faster than GDP.



Can We Achieve Long-Run Fiscal Sustainability?

- I doubt it under current circumstances.
 - The tax revenues needed to pay for the welfare state are neither politically nor economically feasible under the current tax system.
 - We need to create a more pro-growth tax system, including not just income taxes but also sales taxes and taxes on “bads”, like pollution.



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