Implications of Federal Budget Problem

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Hilton Garden Inn, Columbia

Ron Plain
D. Howard Doane Professor
Dept Ag & Applied Economics
University of Missouri-Columbia
Federal Budget Problem

1. What is the budget problem?
2. What are the causes?
   A. Slow economic growth
   B. People are living longer
   C. Baby boomers starting to retire
   D. Huge government debt
3. How bad is it?
4. What can be done?
Federal Budget Problem

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   A. Slow economic growth
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   D. Huge government debt
4. What can be done?
Federal Budget Surplus, 1950-2011

Source: Office of Management and Budget
Federal Surplus/Deficit, 1900-2011

Source: The White House: Office of Management and Budget

Shaded areas indicate US recessions.

Source: St Louis Federal Reserve Bank
Federal Debt Held by the Public, 1990-2021
President’s Budget, February 2011
Federal Receipts & Outlays, 1950-2021
CBO Estimate of Federal Budget, March 2011
Federal Surplus, 1950-2021
CBO Estimate of Federal Budget, March 2011

Billion $
Why the sharp improvement in next 3 years?

- End of “Bush era” tax cuts
- End of stimulus spending
- End of Iraqi & Afghan wars
- Stronger economy
Deficits With & Without Iraq War

Sources: CBO and U.S. Statistical Abstract
Federal Surplus, 1950-2021
CBO Estimate of Federal Budget, March 2011

Why does the deficit get worse after 2015?

Baby boomers’ retirement pushes down tax revenue and drives up the cost of Social Security and Medicare
The federal government plans to pay its bills by borrowing more and more money. As long as someone will loan the government enough money, they can pay their bills.
Federal Deficit

- March vs August
Federal Surplus, 1950-2021
CBO Estimate of Federal Budget, August 2011

Actual    Forecast
Federal Surplus, 1996-2021
Congressional Budget Office, 2011
Federal Deficit

- Why is August deficit forecast smaller than March forecast?
- April FY2011 Budget
2011 SPENDING $3.82 TRILLION

$2.174 TRILLION PROJECTED REVENUE (56.9%)

$1.65 TRILLION DEFICIT (43.1%)

$61 BILLION GOP PROPOSED CUTS (1.59%)

$33 BILLION DEMOCRATIC PROPOSED CUTS (0.86%)

THE BUDGET PIE ILLUSTRATED.

TUESDAY, APRIL 5, 2011
## President’s Budget for FY2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Receipts</th>
<th>Outlays</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2,104.989</td>
<td>3,517.677</td>
<td>1,412.688</td>
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<tr>
<td>2010</td>
<td>2,162.724</td>
<td>3,456.213</td>
<td>1,293.489</td>
</tr>
<tr>
<td>2011</td>
<td>2,173.700</td>
<td>3,818.819</td>
<td>1,645.119</td>
</tr>
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</table>

In March, the republican-controlled house passed legislation to cut 2011 spending by $61 billion to $3,757.819 billion leaving a 2011 deficit of $1,584.119 billion. Senate democrats called those cuts “draconian” “mean spirited” “senseless” and “unrealistic.”
April 2011 Budget Cuts

- Senate plan: cut spending by $33 billion
- House plan: cut spending by $61 billion
- Polls showed the public was in favor of a compromise
- Congress voted to cut spending by $38.5 billion
- In the 8 days preceding the deal, the federal debt grew by $54.1 billion, from $14.2101 to $14.2642
- Actual reduction in 2011 spending less than $0.3 billion
Is Congress Serious?

- **Why S&P Downgraded the US:**
  - U.S. Tax revenue: $2,170,000,000,000
  - Federal budget: $3,820,000,000,000
  - New debt: $ 1,650,000,000,000
  - National debt: $14,271,000,000,000
  - Recent [April] budget cut: $ 38,500,000,000

- **Let’s remove 8 zeros and pretend it’s a household budget:**
  - Annual family income: $21,700
  - Money the family spent: $38,200
  - New debt on the credit card: $16,500
  - Outstanding balance on the credit card: $142,710
  - Budget cuts: $385
Federal Deficit

- Why is August deficit forecast smaller than March forecast?
- April FY2011 Budget
- August Budget Control Act
- Expectation of a stronger economy
Budget Control Act of 2011

- Calls for $2.1 Trillion of spending cuts over 2012-2021
  - $0.9 Trillion in discretionary cuts
  - $1.2 Trillion from “super committee”
Budget Control Act of 2011

- If “super committee” does nothing, automatic cuts of $1.2 Trillion to start 1/15/12.

- Discretionary spending
  - 10% (2013) to 8.5% (2021) cuts in defense ($454 B)
  - 7.8% (2013) to 5.5% (2021) cuts in non-defense ($294 B)

- Mandatory spending
  - Medicare cuts of $123 Billion less $31 Billion
  - 7.8% (2013) to 5.5% (2021) cuts in non-defense ($47 B)
  - Debt service savings of $169 Billion
Automatic Spending Cuts Under BCA Sequester
Annual and Cumulative, FY 2013-2021

CUMULATIVE CUTS
MANDATORY
Medicare 11%
Other Mandatory 4%

DISCRETIONARY
Defense Discretionary 42%
Non-Defense Discretionary 27%
Interest 16%

TOTAL CUTS $1.1 trillion

Source: Congressional Budget Office
Produced by: Veronique de Rugy, Mercatus Center at George Mason University
Federal Deficit

- So the problem is being solved?
- Only on paper
  - Congress has passed legislation calling for unspecified future “cuts”
  - There have been almost no actual current cuts
Federal Spending Without & With Sequester Cuts
Annual and Cumulative, FY 2013-2021

Spending Without Sequester  Spreading With Sequester

<table>
<thead>
<tr>
<th>Year</th>
<th>Without</th>
<th>With</th>
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<tbody>
<tr>
<td>2012</td>
<td>$3.5</td>
<td>$3.8</td>
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<tr>
<td>2013</td>
<td>$4.0</td>
<td>$4.3</td>
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<tr>
<td>2014</td>
<td>$4.5</td>
<td>$4.8</td>
</tr>
<tr>
<td>2015</td>
<td>$5.0</td>
<td>$5.3</td>
</tr>
<tr>
<td>2016</td>
<td>$5.5</td>
<td>$5.8</td>
</tr>
<tr>
<td>2017</td>
<td>$6.0</td>
<td>$6.3</td>
</tr>
<tr>
<td>2018</td>
<td>$6.5</td>
<td>$6.8</td>
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<tr>
<td>2019</td>
<td>$7.0</td>
<td>$7.3</td>
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<tr>
<td>2020</td>
<td>$7.5</td>
<td>$7.8</td>
</tr>
<tr>
<td>2021</td>
<td>$8.0</td>
<td>$8.3</td>
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</table>

Spending Increase Between 2013-2021

<table>
<thead>
<tr>
<th>Category</th>
<th>Without</th>
<th>With</th>
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</thead>
<tbody>
<tr>
<td>Defense</td>
<td>20%</td>
<td>18%</td>
</tr>
<tr>
<td>Nondfense Discretionary</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>Medicare</td>
<td>62%</td>
<td>62%</td>
</tr>
<tr>
<td>Other Mandatory</td>
<td>51%</td>
<td>51%</td>
</tr>
<tr>
<td>Net Interest</td>
<td>152%</td>
<td>136%</td>
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</tbody>
</table>

Source: Congressional Budget Office
Produced by: Veronique de Rugy, Mercatus Center at George Mason University
Federal Deficit

- OMB & CBO deficit forecasts are based on current law
- Current law includes some tax increases and budget cuts that almost no one believes will happen
Unfunded Federal Obligations

- $6.36 trillion – public debt
- $18.69 trillion – Social Security
- $33.18 trillion - Medicare
- $3.47 trillion – military retirement
- $1.85 trillion – civil service retirement
- $0.25 trillion - other
- $63.8 trillion - total

Equals $546,668 per household

Source: USA Today 5/29/09
Federal Deficit

- Forecast vs Actual
# Federal Government Revenues and Expenditures, Billions of Dollars

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>2009</td>
<td>$2,105</td>
<td>$3,518</td>
<td>($1,413)</td>
<td>$2,105</td>
<td>$3,518</td>
<td>($1,413)</td>
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<td>2010</td>
<td>$2,175</td>
<td>$3,524</td>
<td>($1,349)</td>
<td>$2,162</td>
<td>$3,456</td>
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<td>2011</td>
<td>$2,670</td>
<td>$3,650</td>
<td>($980)</td>
<td>$2,228</td>
<td>$3,708</td>
<td>($1,480)</td>
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<td>2012</td>
<td>$2,964</td>
<td>$3,613</td>
<td>($649)</td>
<td>$2,555</td>
<td>$3,655</td>
<td>($1,100)</td>
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<tr>
<td>2013</td>
<td>$3,218</td>
<td>$3,756</td>
<td>($538)</td>
<td>$3,090</td>
<td>$3,794</td>
<td>($704)</td>
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<tr>
<td>2014</td>
<td>$3,465</td>
<td>$3,940</td>
<td>($475)</td>
<td>$3,442</td>
<td>$3,975</td>
<td>($533)</td>
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<tr>
<td>2015</td>
<td>$3,625</td>
<td>$4,105</td>
<td>($480)</td>
<td>$3,651</td>
<td>$4,202</td>
<td>($551)</td>
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<tr>
<td>2016</td>
<td>$3,814</td>
<td>$4,335</td>
<td>($521)</td>
<td>$3,832</td>
<td>$4,491</td>
<td>($659)</td>
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<tr>
<td>2017</td>
<td>$3,996</td>
<td>$4,521</td>
<td>($525)</td>
<td>$4,075</td>
<td>$4,691</td>
<td>($616)</td>
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<tr>
<td>2018</td>
<td>$4,170</td>
<td>$4,712</td>
<td>($542)</td>
<td>$4,275</td>
<td>$4,885</td>
<td>($610)</td>
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<tr>
<td>2019</td>
<td>$4,352</td>
<td>$5,000</td>
<td>($648)</td>
<td>$4,489</td>
<td>$5,185</td>
<td>($696)</td>
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<tr>
<td>2020</td>
<td>$4,563</td>
<td>$5,250</td>
<td>($687)</td>
<td>$4,712</td>
<td>$5,451</td>
<td>($739)</td>
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Source: Congressional Budget Office
Short-Term Deficits Grow Under President’s Budget

Source: Office of Management and Budget, President’s Budget FY 2010 and FY 2012
Produced by: Veronique de Rugy, Mercatus Center at George Mason University
Spending as a Share of GDP:
February 2009 and February 2011 Estimates

Produced by: Matt Mitchell and Jakina Debnam, Mercatus Center at George Mason University
In January 2001, CBO’s 10 year forecast was for a surplus of $5.6 trillion. The actual for those 10 years was a deficit of $6.2 trillion.

CBO missed by $11.8 trillion
I didn't have any accurate numbers so I just made up this one.

Studies have shown that accurate numbers aren't any more useful than the ones you make up.

How many studies showed that?

Eighty-seven.
Federal Budget Problem

1. What is the problem?
2. How bad is it?
3. What are the causes?
   A. Slow economic growth
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   D. Huge government debt
4. What can be done?
Why so large a deficit?

It is easier to get re-elected by cutting taxes and spending money than by raising taxes and saving money.
Americans on the Dole

- 46.5 million Americans: Social Security
- 42.6 million Americans: Medicare
- 42.4 million Americans: Medicaid
- 36.1 million Americans: food stamps
- 12.4 million Americans: housing subsidies

Source: Census Bureau for 2009
Food Stamp Participation

Source: SNAP/USDA
Households Are Receiving More from the Government Than They Are Giving

Transfers of Income to Households

Taxes Paid by Households

As a Percent of Personal Income

Data: Bureau of Economic Analysis
In *Democracy in America*, Alexis de Tocqueville said, “Democracy in America is doomed when the people learn to vote themselves money from the public trough.”
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The Great Recession
U.S. Gross Domestic Product, 1947-2011
Drifting Farther Apart

Actual vs. Trend Total Current-Dollar Spending

Billions of Dollars


1993-2007 Trend Actual Spending Forecasted Spending
Growth in Real GDP

Source: U.S. Commerce Department
U.S. Employment, 1948-2011

Source: St Louis Federal Reserve Bank
Change in Real GDP from Previous Year
Seasonally Adjusted, Annual Rate, 1950-2010

Source: U.S. Department of Commerce, Bureau of Economic Analysis
Change in Real GDP from Previous Year
Seasonally Adjusted, Annual Rate, 1950-2010

Source: U.S. Department of Commerce, Bureau of Economic Analysis
Change in Real GDP from Previous Year
Seasonally Adjusted, Annual Rate, 1950-2010

Why the slowing in growth? Increasing governmental regulation

Source: U.S. Department of Commerce, Bureau of Economic Analysis
U.S. Unemployment Rate, Seasonally Adjusted, 1996-2011

Source: Bureau of Labor Statistics
U.S. Unemployment Duration, 1967-2011

Source: St Louis Federal Reserve Bank
When the private sector fails, the solution is more government. When the government fails, the solution is more government.
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Social Security’s Troubles

- The ratio of workers to retirees keep declining
- Life expectancy keeps increasing
  - FDR signed the Social Security Act on 8/14/35
  - Regular monthly payments began in January 1940
  - In 1940, a U.S. 20 year old male was expected to live to age 67.76
    - Collect Social Security for 2.76 years
  - In 1970, a U.S. 20 year old male was expected to live to age 70.22
    - Collect Social Security for 5.45 years
  - In 2001, a U.S. 20 year old male was expected to live to age 76.0
    - Collect Social Security for 11.0 years
  - In 2009, a U.S. 20 year old male was expected to live to age 76.7
    - Collect Social Security for 11.7 years
Data from the federal budget, historical tables, table 4.1, as deflated
Breakdown of National Healthcare Expenditures

Source: National Health Expenditure Accounts.
Entitlements Alone Will Eclipse Historical Tax Levels by 2052

Spending on the three major entitlements, Medicare, Medicaid, and Social Security, will more than double in the next 40 years. Without major reforms, entitlement spending will consume all federal tax revenues by 2052.

Three Major Entitlements and Tax Revenues as a Percentage of GDP

Source: Congressional Budget Office.

Entitlements Chart 3 • 2009 Federal Revenue and Spending Book of Charts heritage.org
Social Security & Medicare Trust Funds

Since workers pay and retirees collect, SS & Medicare ran a cash flow surplus when started. The surplus funds were deposited in trust funds to pay future obligations.
Fraying Safety Net
Assets as a percentage of annual expenditures

Note: 2011 and later are projections
Source: Social Security Administration
Social Security & Medicare Trust Funds

Rather than just leaving the trust fund monies in a non-earning account, the money was invested to earn interest, i.e. it was loaned to the federal government.
Social Security & Medicare Trust Funds

These trust funds are similar to a couple who decided to put $300 each month into a tin box to pay for their new-born child’s college education. Whenever they ran short of money to pay their bills, they took money out of the tin box and replaced it with an IOU. The child will soon be graduating high school and they have a tin box full of IOUs to pay for college.
Social Security pays out more money each month than it collects in taxes. This is depleting the trust fund which is projected to be emptied by 2036. After that there will be sufficient revenue to pay 77% of scheduled benefits.

Source: Businessweek, 5/13/11
Medicare pays out more money each month than it collects in taxes. This is depleting the trust fund which is projected to be emptied by 2024. After that there will be sufficient revenue to pay 90% of scheduled benefits.

Source: Businessweek, 5/13/11
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Labor Force Participation Rate, 1984-2011
America drops out

Labour force participation rates, men aged 25-54, %

Source: OECD
Federal Budget Problem

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2. How bad is it?

3. What is the cause?
   A. Slow economic growth
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   D. Huge government debt

4. What can be done?
Federal Debt Held by the Public, 1990-2021

President’s Budget, February 2011

Tillion $
Is the U.S. Government Bankrupt?

- The U.S. government is like a wealthy man with lots of grandchildren to whom he has promised many, many things.
- He has enough wealth to pay off his banker, but not enough to deliver on all the promises to his grandchildren.
Interest rate
A balloon of short-term i.o.u.'s coming due

Historically, the government has tried to limit its short-term debt — Treasury bills that are due from 30 days to one year — to less than 25 percent of its overall issuance. But the financial crisis created a sudden large need for cash, and short-term debt soared to 36 percent of the government's much-bigger portfolio. More than $1.6 trillion is due by March 31 alone. Replacing any of that with longer-term bonds will require paying higher interest rates.

At the end of October, 36 percent of the debt held by the public was due within a year.

<table>
<thead>
<tr>
<th>DUE:</th>
<th>Within a year</th>
<th>1 to 2 years</th>
<th>2 to 3 years</th>
<th>3 to 5 years</th>
<th>5 to 10 years</th>
<th>10 years or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>RATE: 0 to 1%</td>
<td>$2.5 trillion</td>
<td>$0.4 trillion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1% to 2%</td>
<td>$0.4 trillion</td>
<td>$0.4 trillion</td>
<td>$0.3 trillion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2% to 3%</td>
<td></td>
<td>$0.3 trillion</td>
<td>$0.3 trillion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3% to 4%</td>
<td></td>
<td></td>
<td>$0.4 trillion</td>
<td></td>
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<tr>
<td>4% to 5%</td>
<td></td>
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<td></td>
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<tr>
<td>5% or more</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$0.3 trillion</td>
<td></td>
</tr>
</tbody>
</table>

U.S. Treasury Securities Outstanding, 1996-2010

Source: U.S. Treasury
U.S. Treasury Securities

- Bills – mature in 1 year or less
- Notes – mature in 1 to 10 years
- Bonds – mature in 20 to 30 years
- TIPS – (Treasury Inflation Protected Securities) mature in 5, 10 or 30 years
Faster economic growth will bring higher inflation and higher interest rates
Change in CPI from Year Ago,
Seasonally Adjusted, monthly, 1996-2011

Source: U.S. Bureau of Labor Statistics
3-Month Rate, 1934-2011

3-Month Treasury Bill: Secondary Market Rate (TB3MS)
Source: Board of Governors of the Federal Reserve System

Shaded areas indicate US recessions.
2011 research.stlouisfed.org
Cost of the Debt Drives Long-Term Spending Explosion

Source: Congressional Budget Office

Produced by: Veronique de Rugy, Mercatus Center at George Mason University
“Government can’t balance a checkbook. I know finance math. I do it for a living. And when I look at the numbers involved here, it makes my head swim. . . . It doesn’t work. No matter how hard you wish, no matter how hard you hope, no matter how much compassion you can fit in your stupid compassionate heart, no matter how much you happen to like some program that helps somebody do something wonderful... math never lies and interest never sleeps. Caring don’t pay the bills.”

- Larry Correia
Federal Budget Problem

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4. What can be done?
What can be done?

1. Kick the can down the road
2. Print money
3. Raise taxes
4. Cut spending
5. All of the above
Waiting to deal with the budget problem only makes the problem worse, but it benefits:

Those who will die first

Those who will no longer be in leadership roles when painful cuts are made
What can be done?

1. Kick the can down the road
2. Print money
3. Raise taxes
4. Cut spending
5. All of the above
St. Louis Adjusted Monetary Base (AMBNS)
Source: Federal Reserve Bank of St. Louis

Shaded areas indicate US recessions.
2011 research.stlouisfed.org
St Louis Adjusted Monetary Base

Source: St Louis Federal Reserve Bank
If you owe the bank $5 thousand you can’t pay back, you have a problem.

If you owe the bank $5 million you can’t pay back, the bank has a problem.
What can be done?

1. Kick the can down the road
2. Print money
3. Raise taxes
4. Cut spending
5. All of the above
Revenues

- Individual Income Taxes (42%)
- Social Insurance Taxes (40%)
- Corporate Income Taxes (9%)
- Other Revenues (10%)
**Federal Revenues by Source**

Most federal revenues come from individuals. Personal income taxes provide the largest portion of total tax revenues. Social Security and Medicare payroll taxes are the second-largest source.

**PERCENTAGE OF TOTAL FEDERAL REVENUE (2009)**

- **Individual** ($915.3 billion) - 43.5%
- **Social Insurance** ($890.9 billion) - 42.3%
- **Corporate** 6.6% ($138.2 billion)
- **Customs Duties, Misc.** 3.5% ($74.2 billion)
- **Excise** 3.0% ($62.5 billion)
- **Estate and Gift** 1.1% ($23.5 billion)

**Source:** Congressional Budget Office.
Corporate Income Tax Rates in the OECD

Source: 2011 OECD Tax Database
Produced by: Veronique de Rugy, Mercatus Center at George Mason University
Why doesn’t the government just raise tax rates on the rich to reduce the deficit?
The Middle Class Tax Target

The amount of total taxable income (left scale) for all filers by adjusted gross income level for 2008

$1.4 trillion

Source: IRS
## Top 10% Share of Federal Taxes

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
<th>Country</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>45.1%</td>
<td>Slovakia</td>
<td>32.0%</td>
</tr>
<tr>
<td>Italy</td>
<td>42.2%</td>
<td>Germany</td>
<td>31.2%</td>
</tr>
<tr>
<td>Ireland</td>
<td>39.1%</td>
<td>Luxembourg</td>
<td>30.3%</td>
</tr>
<tr>
<td>U.K.</td>
<td>38.6%</td>
<td>Japan</td>
<td>28.5%</td>
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<tr>
<td>Australia</td>
<td>36.8%</td>
<td>Austria</td>
<td>28.5%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>35.9%</td>
<td>Poland</td>
<td>28.3%</td>
</tr>
<tr>
<td>Canada</td>
<td>35.8%</td>
<td>France</td>
<td>28.0%</td>
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<tr>
<td>Netherlands</td>
<td>35.2%</td>
<td>Korea</td>
<td>27.4%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>34.3%</td>
<td>Average for the 24 nations in the OECD is 31.6%</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>32.3%</td>
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</tr>
</tbody>
</table>

Source: Tax Foundation, 2011
<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Income</th>
<th>Country</th>
<th>Share of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>35.8%</td>
<td>Australia</td>
<td>28.6%</td>
</tr>
<tr>
<td>Poland</td>
<td>33.9%</td>
<td>Japan</td>
<td>28.1%</td>
</tr>
<tr>
<td>U.S.</td>
<td>33.5%</td>
<td>Slovakia</td>
<td>28.0%</td>
</tr>
<tr>
<td>U.K.</td>
<td>32.3%</td>
<td>Netherlands</td>
<td>27.5%</td>
</tr>
<tr>
<td>Ireland</td>
<td>30.9%</td>
<td>Belgium</td>
<td>27.1%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>30.3%</td>
<td>Finland</td>
<td>26.9%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>29.4%</td>
<td>Sweden</td>
<td>26.6%</td>
</tr>
<tr>
<td>Canada</td>
<td>29.3%</td>
<td>Luxembourg</td>
<td>26.4%</td>
</tr>
<tr>
<td>Germany</td>
<td>29.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>28.9%</td>
<td>Average for the 24 nations in the OECD is 28.4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Tax Foundation, 2011
### Ratio: Taxes to Income of Top 10%

<table>
<thead>
<tr>
<th>Country</th>
<th>Ratio</th>
<th>Country</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>1.35</td>
<td>Korea</td>
<td>1.17</td>
</tr>
<tr>
<td>Australia</td>
<td>1.29</td>
<td>Luxembourg</td>
<td>1.15</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.28</td>
<td>Slovakia</td>
<td>1.14</td>
</tr>
<tr>
<td>Ireland</td>
<td>1.26</td>
<td>Austria</td>
<td>1.10</td>
</tr>
<tr>
<td>Canada</td>
<td>1.22</td>
<td>France</td>
<td>1.10</td>
</tr>
<tr>
<td>U.K.</td>
<td>1.20</td>
<td>Germany</td>
<td>1.07</td>
</tr>
<tr>
<td>Finland</td>
<td>1.20</td>
<td>Denmark</td>
<td>1.02</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1.19</td>
<td>Japan</td>
<td>1.01</td>
</tr>
<tr>
<td>Italy</td>
<td>1.18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1.17</td>
<td>Average for the 24 nations in the OECD is 1.11</td>
<td></td>
</tr>
</tbody>
</table>

Source: Tax Foundation, 2011
The Top 10 Percent of Earners Paid 71 Percent of Federal Income Tax

Top earners are the target for new tax increases, but the U.S. tax system is already highly progressive. The top 1 percent of income earners paid 40 percent of all federal income taxes in 2007, while the bottom 50 percent paid only 3 percent. More than one-third of U.S. earners paid no federal income tax at all.

PERCENTAGE OF TOTAL INCOME TAXES (2007)

Source: Internal Revenue Service.
Tax Burden of the Top 1% of Taxpayers Now Exceeds that Paid by Bottom 95%
What can be done?

1. Kick the can down the road
2. Print money
3. Raise taxes
4. Cut spending
5. All of the above
Mandatory Spending

- Social Security (37%)
- Medicare (23%)
- Medicaid and Other Health Programs (15%)
- Other (16%)
- Unemployment Compensation (8%)
What can be done?

1. Kick the can down the road
2. Print money
3. Raise taxes
4. Cut spending
5. All of the above
Implications for Agriculture
2010 Federal Spending

2010 US Spending: $3,456 Billion
2010 USDA Spending: $129 Billion
2010 USDA Mandatory Spending

2010 USDA Mandatory Spending: $103 Billion
2010 USDA Discretionary Spending

- 16% Commodities
- 11% Rural Development
- 20% Forestry Service
- 4% Conservation
- 29% Food & Nutrition
- 10% Research
- 8% Marketing & Reg
- 2% Central Administration

2010 USDA Discretionary Spending: $27 Billion
USDA/NASS Reports Eliminated

1. July Cattle Inventory report
2. Annual report on farm numbers, land in farms and livestock operations
3. Catfish and Trout reports
4. Annual Floriculture report
5. Annual Sheep and Goat report
6. Chemical Use reports less often
7. Annual Bee and Honey report
8. Nursery report
Shrinking the deficit – ag cuts

- The bio-diesel tax credit ends 12/31/11
- The ethanol credit ends 12/31/11
- Fixed payments are hard to defend
- Crop insurance subsidies are huge
- CRP idles needed land
Interest rates
Federal Funds Rate,
monthly average, 1996-2011

Source: Board of Governors, Federal Reserve System
30 Year Mortgage Rate, 1971-2011

Shaded areas indicate US recessions.
2011 research.stlouisfed.org
U.S. Farm Real Estate Values, 1950-2011*
USDA/NASS

*Includes all land, buildings, and dwellings on farms.
Missouri Farmland Values, 1950-2011*
USDA/NASS

*Value of all farm land and buildings.
Missouri Farmland Values, 1950-2011*
USDA/NASS

At the start of 2011, Missouri land values were $292/acre above trend.

*Value of all farm land and buildings.
U.S. Dollar Exchange Rate Index

Trade Weighted Exchange Index: Major Currencies (TWEXMMTH)
Source: Board of Governors of the Federal Reserve System

Shaded areas indicate US recessions.
2011 research.stlouisfed.org
Dow Jones Industrial Average
The greatest threat to America as we know it is the unending expansion of our own government.
Questions?