



Much Ado About Nothing Or... A Pox on Both Houses 6/1/23

The graph below from CBO shows you where the budget problem lies. Spending has historically been above revenue and according to CBO, the gap widens. The average revenue to GDP is less than 17.5%, while spending has averaged 21%. Revenue grows to more than 18% while spending shoots up to more than 25%. Interestingly, it shows that you can raise tax rates, but it doesn't necessarily produce more revenue.

In this environment one would expect the debt to grow, and it does. It grows by more than \$22 trillion (CBO 10-year base case).

After all the name calling and bad feelings one would have expected a strong cut in spending. There was no backbone to be found anywhere. The Democrats were never serious about spending cuts and McCarthy gave away the leverage he had over the Biden Administration. We were first told that there was a hard deadline of June 1st, now we are told that it's June 5th. Given that there is enough monthly revenue to more than pay our interest expenses, June 5th wasn't a drop-dead date either.

The net effect is to reduce the growth in our debt over the next 10 years from \$22 trillion to about \$20 trillion. This is just a shade over a rounding error. The debt growth and the net interest on it will dramatically cut potential GDP.

We are told that this was just the first step. It was a baby step at best and without putting non-discretionary spending on the table it will be our last steps. Congress has shown us that they can't or won't deal with entitlement reform. The only chance we have of doing so is to form a commission. It guarantees nothing, but at least it gives us some hope.

A commission could look like Greenspan, Bill Bradley, Hollings, and two former CBO directors, one Republican and one Democrat. Others could be added. It might give the Congress some political cover.

Total Outlays and Revenues

Percentage of Gross Domestic Product

